

# **StorageVault Canada Inc.**

**(the “Corporation”)**

**Form 51-102F1**

## **Management’s Discussion and Analysis For Three Months Ended March 31, 2017**

The following Management’s Discussion and Analysis (“MD&A”) provides a review of corporate and market developments, results of operations and the financial position of StorageVault Canada Inc. (“SVI” or “the Corporation”) for the three months ended March 31, 2017. This MD&A should be read in conjunction with the March 31, 2017 interim consolidated financial statements and accompanying notes contained therein, which have been prepared in Canadian dollars and in accordance with International Financial Reporting Standards (“IFRS”). This MD&A is based on information available to Management as of May 1, 2017.

### **FORWARD LOOKING STATEMENTS**

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 and portable storage; economic conditions; the availability of credit; the expectation of cash flows; the Corporation’s strategic objectives, growth strategies, goals and plans; potential sources of financing including issuing additional common shares as a source of financing, generally, and as a source of financing for potential acquisitions; future expansion of existing SVI Stores; the size of potential future acquisitions the Corporation may make in 2017; and the general outlook for the Corporation. This forward-looking information is contained in “Nature of Business”, “Business and General Corporate Strategy”, “Outlook”, “Financial Results Overview” and “Working Capital, Long Term Debt and Share Capital” and other sections 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. Certain of such risks are discussed in the “Risks and Uncertainties” section of this MD&A.

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 sufficient or necessary financing, satisfy conditions under previously announced acquisition agreements, or satisfy any requirements of the TSX Venture Exchange with respect to these acquisitions and any related private placement; the level of activity in the storage business and the economy generally; consumer interest in the Corporation's services and products; competition and SVI's competitive advantages; trends in the storage industry, including, increased growth and growth in the portable storage business; the availability of attractive and financially competitive asset acquisitions in the future. A description of additional assumptions used to develop such forward-looking information and a description of additional risk factors that may cause actual results to differ materially from forward-looking information can be found in the Corporation's disclosure documents on the SEDAR website at [www.sedar.com](http://www.sedar.com). 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.

The amount of potential future acquisitions by the Corporations in fiscal 2017 and revenue and NOI growth for 2017 may be considered a financial outlook, as defined by applicable securities legislation, contained in this MD&A. Such information and any other financial outlooks or future-oriented financial information has been approved by management of the Corporation as of the date hereof. Such financial outlook or future-oriented financial information is provided for the purpose of presenting information about management's current expectations and goals relating to the future business of the Corporation. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

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

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## GLOSSARY OF TERMS

The following abbreviated terms are used in the Management Discussion & Analysis and have the following respective meanings:

“**Costco**” means Costco Wholesale Canada Ltd.;

“**Existing Self Storage**” means stores that the Corporation has owned or leased since the beginning of the previous fiscal year;

“**FFO**” means net income (loss) excluding gains or losses from the sale of depreciable real estate, plus depreciation and amortization, stock based compensation expenses, and deferred income taxes; and after adjustments for equity accounted entities and non-controlling interests.

“**IFRS**” means international financial reporting standards;

“**MD & A**” means this management discussion and analysis disclosure document;

“**New Self Storage**” means stores that have not been owned or leased continuously since the beginning of the previous fiscal year;

“**NOI**”, means net operating income, calculated as revenue from storage and related services less related property operating costs;

“**Non-IFRS Measures**” means operating and performance metrics that are not always calculated with reference to IFRS, but are used commonly in the storage industry to measure operating results for assets owned or leased;

“**Q1, Q2, Q3 or Q4**” means a three month fiscal quarter of the Company, ending on March 31, June 30, September 30 and December 31 respectively;

“**Revenue Management**” means the operating principle of achieving optimal revenue through a combination of rental rate increases on existing customers (increases the existing revenue base and rent per square foot) and dynamic pricing of available inventory;

“**Store**” means self storage property or location or facility or site;

“**Subsequent Events**” means material transactions that have occurred from April 1, 2017 to May 1, 2017.

“**SVI**” means StorageVault Canada Inc.;

“**The Company**” or “**The Corporation**” or “**We**” or “**Our**” means StorageVault Canada Inc.;

## NATURE OF OUR BUSINESS

### **Business Overview**

The Corporation was incorporated on May 31, 2007, under the Business Corporations Act of Alberta, and is domiciled in Canada. The common shares of the Company are publicly traded on the TSX Venture Exchange, under the symbol 'SVI'. The Corporation's primary business is owning, operating and renting self storage and portable storage space to individual and commercial customers.

SVI has fifty-six stores across Canada, operating under the Access Storage, Storage For Your Life and Depotium Mini-Entrepots brands, totaling 3,005,889 square feet of rentable storage space comprised of 26,447 rental units.

SVI's portable storage business operates across Canada under the Cubeit and PUPS brands. Of our rental units, 3,706 are portable storage units in service throughout Canada (120 of these units are operated under third party licensing agreements in British Columbia and the Maritimes).

SVI's strategic objective is to own and operate self storage and portable storage in Canada's top markets. The Corporation will focus on acquiring storage assets with strong existing cash flows, in strategic markets, preferably with excess land allowing for future development and expansion of our self and portable storage businesses. Financing for this growth is intended to come from a combination of free cash flow from operations, mortgage financing and the issuance of additional debt or equity securities.

### **The Storage Landscape**

Demand for storage is driven by population growth, change of circumstances and smaller living areas and work spaces. Business incubation, immigration, downsizing, renovations, moving, death, divorce, insurance, etc. have contributed to the significant growth in demand for storage space in Canada over the past 10 years and statistics show that this trend is expected to continue.

### Market Size

The Canadian storage market is estimated to be 60 million square feet across 2,500 stores, with the top 10 operators owning less than 15% of these stores; by comparison, the US market is estimated at over 2.5 billion square feet across over 52,500 stores. This translates into approximately 8.3 square feet per capita in the US versus only 2.5 square feet per capita in Canada suggesting that Canada is an under-stored nation.

The market fragmentation of the Canadian storage industry combined with the low square foot per capita provides significant consolidation, expansion and development opportunities. Our existing platform, relationships, reputation, presence in and knowledge of the storage industry allows us to identify accretive and strategic acquisitions and to take advantage of these opportunities.

### Pricing and Occupancy

A store's rental rates and level of occupancy are dependent upon factors such as population density and growth (approximately 80% of customers live or work within 8 km's of the store location), the local economy, pricing, customer service, curb appeal, etc. We believe in managing our inventory (units) through pricing. Since our rentals are either weekly or monthly, we are able to react to market demand very quickly. Our objective is to maximize revenue and NOI, by increasing rent per square foot first and maximizing occupancy second.

### Competition

New development in a market impacts the occupancy and the ability to raise rates at existing stores until the market absorbs the new space. New entrants tend to offer significant move-in specials to achieve more rapid occupancy gains. Once the space has leased up, promotions are reduced or eliminated and the focus switches to maximizing revenue through price increases. This can result in short term fluctuations in occupancy and revenue per square foot at existing stores.

### Seasonality

The storage business is subject to seasonality. There is naturally more activity in the warmer months and less activity in the colder months. As a result occupancies and revenue per square foot tend to be highest in Q2 and Q3 and lowest in Q1 and Q4. This trend is consistent with what is experienced in the Northern US. This seasonality is more significant in the portable storage business as all of our portable units are non-climate controlled. Also, operating costs tend to be higher during the winter months in Canada due to heating and snow removal costs resulting in lower NOI margins in Q1 and Q4 versus Q2 and Q3.

## **BUSINESS AND GENERAL CORPORATE STRATEGY**

SVI owns and operates storage locations offering both self storage and portable storage for rent on a weekly or monthly basis, for personal and business use. We are focused on owning and operating locations in the top markets in Canada with a plan to have multiple stores, where possible, in each market we operate.

### **Growth Strategies**

Our growth strategy is described in the following four segments: acquisitions, organic growth through improved performance of existing stores, expansion of our existing stores to meet pent up demand and expansion of our portable storage business.

### Acquisitions

The combination of our corporate platform, our industry relationships and our storage experience provide StorageVault with a unique advantage in the Canadian market place. This advantage allows us to identify accretive and strategic purchasing opportunities at attractive prices that provide synergies in operations, marketing and revenue maximization.

We intend to be disciplined purchasers, with a focus on Canada's top markets. However, as there is more competition to acquire existing stores, especially from US purchasers, we may not be able to find acquisitions that meet our criteria.

### Organic Growth

Scale has become increasingly important in the storage business and the increased size of SVI provides a significant advantage in negotiating better rates on: insurance, software, office supplies, resale retail products, merchant services, technical support and long distance transport of portable units. These economies translate into improved margins and better results.

Efficiencies are also gained through cross promotion and marketing of the self storage and portable storage platforms due to a larger national footprint, offering different but complementary product choices at various price points to our customers.

The most significant evolution in the storage industry over the last three years has been in the area of revenue management. Revenue management is the principle of achieving optimal revenue through a combination of rental rate increases on existing customers (increases the existing revenue base and rent per square foot) and dynamic pricing of available inventory so we are selling the right product, to the right customer at the right time, for the right price. With a focus on revenue management, stores are able to achieve significant top and bottom line growth even when occupancies are stable.

#### Existing Store Expansion

There is over 750,000 square feet of development potential on the land currently owned and operated by SVI. When the market conditions are suitable and high occupancies indicate pent up demand, we expect to expand a number of our existing locations.

#### Expansion of Portable Storage Business

The portable storage business is where the self storage business was 20 years ago and has significant growth potential. This belief is supported by Canada's largest pension plan purchasing the world's largest portable storage business in one of their long-term funds in February 2015 for over \$1 billion. While margins in the portable storage business are not as high as they are in the self storage business, they are still very attractive. With a larger geographic and operating footprint achieved through our growth strategy, we believe the margins will continue to improve.

#### **Financing Strategy**

We anticipate funding the capital requirements of our growth strategy through excess operating cash flow, utilization of suitable leverage and from the issuance of equity and debt securities.

#### Financing With Secured Debt and Lines of Credit

The Corporation will partially fund the purchase of storage assets with debt. A number of factors are considered when evaluating the level of debt in our capital structure, as well as the amount of debt that will be fixed or variable rate. In making financing decisions, the factors that we consider include, but are not limited to interest rate, amortization period, covenants and restrictions, security requirements, prepayment rights and costs, overall debt level, maturity date in relation to existing debt, overall percentage of fixed and variable rate debt and expected store performance.

#### Issuance of Common Shares

The Corporation will, from time to time, issue common shares to the public or to vendors to fund the purchase of storage assets or pay down debt. SVI will consider issuances of additional common shares for cash proceeds or as consideration in the purchase of storage assets in the upcoming fiscal year if accretive to shareholders. Future issuances will be dependent upon financing needs, acquisitions and expansion, equity market conditions at the time and transaction pricing.

## OUTLOOK

The Corporation's outlook for acquisitions, share capital, results from operations and subsequent events are:

### **Acquisitions**

In 2017 we expect to acquire \$50 to \$90 million of storage assets, excluding any large portfolio acquisitions such as the \$396.6 million portfolio acquisition announced on March 22, 2017. As of the date of this MD & A, we have closed \$32.2 million in acquisitions and announced, excluding the large portfolio, an additional \$15.0 million that are pending.

To date, we have been successful in exceeding our acquisitions targets; however, as there is more competition to acquire existing stores, especially from US purchasers, we may not be able to continually find acquisitions that meet our criteria.

### **Share Capital**

The Corporation will from time to time issue common shares to the public or to vendors to fund the purchase of storage assets. Future issuances will be dependent upon financing needs, acquisition opportunities, expansion plans, equity market conditions at the time and transaction pricing.

### **Results from Operations**

We expect significant growth in revenue and net operating income in 2017 resulting from the timings of 2016 and 2017 acquisitions and as we continue to streamline and integrate, implement our revenue management systems and continue to reduce costs on the \$324.6 million of assets purchased in 2015 and 2016.

The Corporation may use discounts in select markets to match competitive forces and retain its customer base as a result of new competitors trying to jump-start their lease up periods by offering significant discounts to new customers. This can result in short term fluctuations in occupancy and rent per square foot at existing stores. The effect on overall revenues is not expected to be significant, but it may be enough to slow the rate of growth in revenues experienced in past years.

## DESCRIPTION OF OUR OPERATIONS

As at March 31, 2017, the Corporation had the following self storage and portable storage operations:

Location	Acres	Number of Stores	Units	Rentable Square Feet
British Columbia	24.2	10	4,921	500,300
Alberta	23.4	6	2,282	260,040
Saskatchewan	21.4	7	1,453	207,508
Manitoba	12.8	6	2,425	249,191
Ontario	82.6	20	8,431	1,104,795
Quebec	10.9	7	3,349	272,940
Portable Storage Units			3,586	411,115
<b>Total</b>	<b>175.3</b>	<b>56</b>	<b>26,447</b>	<b>3,005,889</b>

Management is focused on increasing value and increasing NOI as follows:

### Professional Management

SVI's stores were managed by Access Results Management Services Inc. (ARMS). On March 31, 2017, SVI internalized management of StorageVault's stores and acquired the third party management contracts for over 55 stores from ARMS. The management team at ARMS, and now SVI, has extensive experience in all aspects of the storage industry including:

- management of over 110 storage locations throughout Canada
- acquisition and development of over 5 million square feet of storage space
- over 100 years of combined experience in the storage industry by senior management

### Revenue Management

In today's competitive climate, revenue per square foot is the greatest driver in creating value. Our management platform has dedicated managers who understand the nuances of each local market. Their in-depth knowledge of our customer base and the competition allows us to implement strategic rate increases and optimize proven promotions to attract clientele that will be long-term customers, repeat renters and strong referral sources.

### Marketing

We implement specific marketing plans for the different stages and seasons of our business with emphasis on maximizing return on investment for every dollar spent. Our strategies to attract customers include strong search engine marketing, user friendly online presence, community connection programs and development of large national accounts. We conduct specific store and market studies to determine how, when and where to focus our marketing dollars with the goal of efficiently and consistently increasing the value of our stores.

### Costco Supplier

Our storage business is the exclusive supplier to Costco members across Canada. This relationship provides exclusive access to Costco's vast membership base as a marketing channel.

**Storage Solution Centre**

Our management platform has a Storage Solution Centre (call center) that provides call management services designed to increase reservations and move-ins, increase productivity at the store level and improve corporate image through professionalism, consistency of messaging and willingness to resolve issues. Our Storage Solution Centre Experts have worked in the storage business and understand the need to (i) introduce and greet professionally; (ii) establish rapport with customers; (iii) build trust; (iv) ask the right questions; (v) listen; (vi) ask for the business and (vii) close the sale. The overall result is an increased close rate leading to improved financial performance.

**Technology and Software**

SVI stores utilize modern and updated software, technology and security systems. We work with vendors and developers, who have knowledge of the storage business, to take advantage of developing trends, including: (1) exception reports that allow management to monitor key performance and fraud indicators ensuring that management time is more effectively spent preventing and resolving issues than identifying them; and (2) web-based software reporting that allows authorized individuals to view specific store information in real time. The user can choose to see daily rental rates achieved and the number of customers moving-in or moving-out. This tool allows us to adjust quickly to opportunities and competitive threats in each marketplace.

**Economies of Scale**

The size and scope of our management platform, combined with the growing size of our own operations translates into higher gross margins through the centralization of many functions such as revenue management, property management, employee compensation and benefits programs, as well as the development and documentation of standardized operating procedures and best practices.

## FINANCIAL RESULTS OVERVIEW

In the prior fiscal year, SVI added 21 stores for \$178.4 million (one through an asset swap valued at \$3.4 million), the majority of which, \$150.7 million, closed in the last 4 months of 2016. In fiscal 2015, SVI added 19 stores, for \$146.2 million, with \$111.8 million also taking place in the last 4 months. The comparative results are significantly impacted by the timing of these acquisitions.

### Selected Financial Information

	Three Months Ended March 31		Year over Year Change	
	2017	2016	\$	%
Storage revenue and related services	\$ 10,133,138	\$ 5,296,970	4,836,168	91.3%
Operating costs	3,981,886	2,227,599	1,754,287	78.8%
Net operating income	6,151,252	3,069,371	3,081,881	100.4%
Less:				
Acquisition and integration costs	719,375	318,825	400,551	125.6%
Selling, general and administrative	710,850	435,855	274,995	63.1%
Interest	2,067,417	1,305,189	762,228	58.4%
Stock based compensation	1,534,286	-	1,534,286	N/A
Depreciation and amortization and goodwill adjustment	11,917,189	2,340,507	9,576,682	409.2%
	16,949,117	4,400,376	12,548,741	285.2%
Net Income (Loss)	\$ (10,797,865)	\$ (1,331,005)	(9,466,860)	711.3%
Weighted average number of common shares outstanding				
Basic	290,172,409	169,024,722	121,147,687	71.7%
Diluted	290,172,409	169,024,722	121,147,687	71.7%
Net income (loss) per common share				
Basic	\$ (0.037)	\$ (0.008)		
Diluted	\$ (0.037)	\$ (0.008)		

#### Storage revenue and related services

Revenues increased by \$4.9 million, or 91.3%, for the three months ended March 31, 2017, as compared to the same period in 2016. This increase is attributable to increased occupancy and execution of our revenue management program and incremental revenue from the properties acquired in 2016. For additional information, see "Segmented, Existing and New Self Storage and Portable Storage Results."

#### Operating costs

Operating costs for the three months ended March 31, 2017 were \$4.0 million (March 31, 2016 - \$2.2 million), an increase of 78.8%. The increase in property operating cost relates to the stores acquired in 2016.

### Net operating income

For the three months ended March 31, 2017, the Corporation had NOI, a non-IFRS measure, of \$6.2 million (March 31, 2016 - \$3.1 million), an increase of 100.4%. The increase was primarily due to NOI from storage assets purchased in 2016, increased rates through our revenue management systems, streamlining and integration of operations, and reduction of costs on assets purchased.

### Acquisition and integration costs

Acquisition and integration costs include professional fees incurred to identify, qualify, close and integrate the assets purchased and pending. SVI has closed or announced \$459.2 of total acquisitions to date in fiscal 2017, following \$178.4 million of acquisitions in fiscal 2016.

### Selling, general and administrative

Selling, general and administrative expenses include all expenses not related to the stores including corporate office overheads and payroll, travel and professional fees. These costs have increased as a result of increased activity associated with the growth of the business.

### Interest

Interest expense increased as the total amount of debt outstanding increased with the 2016 and 2017 acquisitions. This increase was partially offset by a decrease in the average interest rate. At March 31, 2017, our total debt was \$230.7 million compared to \$111.1 million at March 31, 2016.

### Depreciation, amortization and goodwill adjustment

The increase in depreciation and amortization expense is primarily due to depreciation taken on the assets acquired in 2016. In addition, we have recorded a \$5.4 million adjustment to goodwill on the income statement. In certain cases, we issued shares to acquire stores with the share price being fixed at the time of the signing of the purchase agreement. IFRS requires us to increase the value of the purchased assets by the amount the share price has increased between the signing date and the closing date. As our share price has continued to increase, we were required to record a \$5.4 million increase to the assets purchased in the quarter. We then adjusted the assets down to the actual purchase price and as a result the amount of this reduction was recorded as a goodwill adjustment in the income statement. All of this was required to comply with the requirements of IFRS and has no impact on the actual value and financial results of our business.

### Net Income

Our net loss went from \$1.3 million in 2016 to \$10.8 million in 2017, a direct result of acquisition and integration costs of \$0.7 million, \$1.5 million in stock option compensation expense and \$11.9 million of depreciation, amortization and goodwill adjustment in Q1 2017.

### **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 non-cash items on the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss). Net income (loss) assumes that the values of our assets diminish over time through depreciation and amortization, irrespective of the value of our real estate assets in the open market. Other non-cash items include stock based compensation costs and deferred income tax expenses (recoveries), if any.

FFO for the three months ended March 31, 2017 was \$2.7 million versus \$1.0 million for the same period in 2016. These increases are the result of contribution from the assets purchased in 2016 and from improved operational results. Included in the Corporation's net income are acquisition and integrations costs, which are one time in nature to the assets purchased in the current period or pending. For the three months ended March 31, 2017, these costs were \$0.7 million versus \$0.3 million for the same period in the 2016.

The FFO for the three months ended March 31, 2017 and 2016 are:

	<b>For the Three Months Ended March 31</b>			
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>Change</u></b>	
Net Income (loss)	\$ (10,797,865)	\$ (1,331,005)	\$ (9,466,860)	711.3%
Adjustments:				
Stock based compensation	1,534,286	-	1,534,286	-
Depreciation and amortization and goodwill adjustment	11,917,189	2,340,507	9,576,682	409.2%
	<b><u>13,451,475</u></b>	<b><u>2,340,507</u></b>	<b><u>11,110,968</u></b>	<b><u>474.7%</u></b>
FFO	<b><u>\$ 2,653,610</u></b>	<b><u>\$ 1,009,502</u></b>	<b><u>\$ 1,644,108</u></b>	<b><u>162.9%</u></b>

## Segmented, Existing and New Self Storage and Portable Storage Results

The Corporation operates two reportable business segments - self storage and portable storage. Self storage involves the customer renting space at the Corporation's property for short or long term storage. Self storage may also include space for storing vehicles and use for small commercial operations. Portable storage involves delivering a storage unit to the customer. The customer can choose to keep the portable storage unit at their location or have it moved to another location.

### Revenue, property operating costs and net operating income

	<u>Three Months Ended March 31</u>		<u>Year over Year Change</u>	
	<u>2017</u>	<u>2016</u>	<u>\$</u>	<u>%</u>
<b>Revenue</b>				
Existing Self Storage	\$ 4,811,863	\$ 4,378,468	433,395	9.9%
New Self Storage	4,226,669	58,788	4,167,881	7089.6%
Total Self Storage	9,038,532	4,437,257	4,601,275	103.7%
Portable Storage	1,094,606	859,713	234,893	27.3%
Combined	10,133,138	5,296,970	4,836,168	91.3%
<b>Operating Costs</b>				
Existing Self Storage	1,703,909	1,576,005	127,905	8.1%
New Self Storage	1,533,709	24,394	1,509,315	6187.1%
Total Self Storage	3,237,618	1,600,399	1,637,219	102.3%
Portable Storage	744,268	627,200	117,068	18.7%
Combined	3,981,886	2,227,599	1,754,287	78.8%
<b>Net Operating Income</b>				
Existing Self Storage	3,107,954	2,802,464	305,490	10.9%
New Self Storage	2,692,960	34,394	2,658,566	7729.7%
Total Self Storage	5,800,914	2,836,858	2,964,056	104.5%
Portable Storage	350,338	232,513	117,825	50.7%
Combined	\$ 6,151,252	\$ 3,069,371	3,081,881	100.4%

#### *Existing Self Storage*

Commencing fiscal 2017, the stores purchased in fiscal 2015 now qualify as Existing Self Storage as the corporation owned these assets since the beginning of 2016. The 2016 comparative numbers have been updated accordingly.

Revenue and NOI increased by 9.9% and 10.9%, respectively, over the prior year resulting from continued execution of our revenue management program and increased occupancy. Operating costs were higher in Q1 2017 versus Q1 2016 and Q4 2016 due to colder weather which resulted in increased snow removal and utility costs.

#### *New Self Storage*

Q1 represents the first full quarter of owning the 21 stores purchased in 2016.

#### *Portable Storage*

The 50.7% increase in NOI, year over year, is the result of increased occupancy and operational efficiencies.

### Quarterly net operating income

The Corporation's quarterly results are affected by the timing of acquisitions, both in the current year and prior year. SVI also incurs non-recurring initial expenses when a new location is acquired. These costs may include labor, severance, training, travel, advertising and or office expenses.

The storage business is subject to seasonality. There is naturally more activity in the warmer months and less activity in the colder months. Operating costs are higher during the winter months in Canada due to heating and snow removal costs resulting in lower NOI margins in Q1 and Q4, versus Q2 and Q3. This is consistent with that experienced in the Northern US.

	Fiscal 2017 ('000)		Fiscal 2016 ('000)				
	Q1	Total	Q4	Q3	Q2	Q1	Total
<b>NOI</b>							
Existing Self Storage	\$ 3,108	\$ 3,108	\$ 3,543	\$ 3,427	\$ 3,091	\$ 2,802	\$ 12,863
New Self Storage	2,693	2,693	1,716	314	90	34	2,154
Total Self Storage	5,801	5,801	5,259	3,741	3,181	2,837	15,018
Portable Storage	350	350	453	739	582	233	2,007
	\$ 6,151	\$ 6,151	\$ 5,712	\$ 4,480	\$ 3,763	\$ 3,069	\$ 17,025

#### *Existing Self Storage*

The increase in Q4 2017 over Q1 2016 is a result of our revenue management program and increased occupancy, year over year.

#### *New Self Storage*

SVI added 21 stores in 2016, with 17 closing in the last 4 months. These additions have resulted in NOI growth quarter over quarter.

#### *Portable Storage*

The increase in NOI over Q1 2016 is the result of increased occupancy and operational efficiencies. The portable storage business is subject to seasonality as all portable units are non-climate controlled generally resulting in lower results in Q1 and Q4.

## Summary of Quarterly Results (unaudited)

Period	Revenue	Net Income / (Loss)	Net Income / (Loss) per share	Fully diluted Net Income / (Loss) per share	Total Assets	Total Liabilities	Dividends
2017- Q1	\$10,133,138	(\$10,797,865)	(\$0.037)	(\$0.037)	\$404,743,767	\$238,025,850	\$749,946
<b>Total 2017</b>	<b>\$10,133,138</b>	<b>(\$10,797,865)</b>	<b>(\$0.037)</b>	<b>(\$0.037)</b>	<b>N/A</b>	<b>N/A</b>	<b>\$749,946</b>
2016- Q4	\$8,900,182	(\$18,657,288)	(\$0.070)	(\$0.070)	\$342,803,581	\$187,115,587	\$724,931
2016- Q3	\$7,307,070	(\$537,379)	(\$0.022)	(\$0.022)	\$253,955,856	\$131,931,530	\$630,309
2016- Q2	\$6,320,322	(\$663,764)	(\$0.004)	(\$0.004)	\$179,885,223	\$118,343,352	\$440,398
2016- Q1	\$5,296,970	(\$1,331,005)	(\$0.008)	(\$0.008)	\$176,728,097	\$114,010,014	-
<b>Total 2016</b>	<b>\$27,824,544</b>	<b>(\$21,189,436)</b>	<b>(\$0.104)</b>	<b>(\$0.104)</b>	<b>N/A</b>	<b>N/A</b>	<b>\$1,795,638</b>
2015- Q4	\$4,795,266	(\$2,702,281)	(\$0.026)	(\$0.026)	\$171,486,477	\$112,922,559	-
2015- Q3	\$3,137,527	(\$821,330)	(\$0.012)	(\$0.012)	\$108,865,822	\$85,594,955	-
2015- Q2	\$2,111,281	(\$677,127)	(\$0.012)	(\$0.012)	\$54,449,748	\$25,372,609	-
2015- Q1	\$1,096,513	(\$374,472)	(\$0.010)	(\$0.010)	\$27,910,360	\$25,033,929	-
<b>Total 2015</b>	<b>\$11,140,587</b>	<b>(\$4,575,210)</b>	<b>(\$0.060)</b>	<b>(\$0.060)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>

## WORKING CAPITAL, LONG TERM DEBT AND SHARE CAPITAL

### Working Capital

Cash provided by operating activities was \$5.2 million for the three months ended March 31, 2017 and \$2.4 million for the same period in the prior year. The increase was primarily due to the operational results from stores purchased in fiscal 2015 and 2016, increased rates through our revenue management systems, and continued streamlining and integration of operations and reduction of costs on assets purchased.

As at March 31, 2017, the Corporation had \$24.7 million of cash and short term deposits compared to \$11.9 million at December 31, 2016. The increase of cash and short term deposits is the result of increased cash from operations and financing proceeds to fund announced acquisitions.

## Long Term Debt and Lines of Credit

As at March 31, 2017 and December 31, 2016, the Corporation held the following debt:

	March 31, 2017			December 31, 2016		
	Rate Range	Weighted Average	Balance	Rate Range	Weighted Average	Balance
<b><u>Mortgages</u></b>						
Fixed/Variable	3.18% to 5.50%	4.08%	184,601,274	3.46% to 5.50%	4.09%	164,942,311
	<i>Maturity: October 2017 to April 2022</i>			<i>Maturity: October 2017 to January 2022</i>		
Deferred financing costs net of accretion of \$748,828 (December 31, 2016 - \$635,977)			<u>(1,009,029)</u>			<u>(918,798)</u>
			<b>183,592,245</b>			<b>164,023,513</b>
<b><u>Lines of Credit and Promissory Note</u></b>						
Variable Rate	Prime plus 1.00% or BA plus 2.75%	3.61%	47,058,426	Prime plus 1.00% or BA plus 2.75%	4.38%	18,483,081
	<i>Maturity: April 2017 to August 2020</i>			<i>Maturity: April 2017 to August 2020</i>		
			<u>230,650,671</u>			<u>182,506,594</u>

The bank Prime rate at March 31, 2017 was 2.70% (December 31, 2016 - 2.70%). The weighted average cost of debt at March 31, 2017 is 3.99% (December 31, 2016 - 4.12%).

Mortgages are secured by a first mortgage charge on the property and equipment of the Corporation, general security agreements covering all assets of the Corporation, general assignment of rents and leases and assignments of insurance coverage over all assets of the Corporation. 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. As of March 31, 2017 and December 31, 2016, the Corporation is in compliance with all covenants.

The deferred financing costs are made up of fees and costs incurred to obtain the related mortgage financing, less accumulated amortization.

The promissory note is non-interest bearing and is due on demand.

Principal repayments on long term debt in each of the next five years are estimated as follows:

Year 1	\$	52,877,341 (includes lines of credit)
Year 2	\$	6,007,831
Year 3	\$	6,241,886
Year 4	\$	6,507,390
Year 5	\$	22,342,324
Thereafter	\$	137,682,929

## Share Capital

For the three months ended March 31, 2017, the Corporation issued a total of 9,961,083 common shares for \$21.2 million, net of share issuance costs, (121,236,776 common shares valued at \$118.9 million were issued in fiscal 2016). The common shares issued are:

	<u>Number of Shares</u>	<u>Amount</u>
Balance, December 31, 2015	167,925,820	\$ 66,867,412
Bought deal	67,647,600	57,500,460
Issued on asset acquisitions (Note 4)	45,621,212	58,803,787
Private placement	8,333,332	5,499,999
Dividend reinvestment plan	345,704	327,365
Share option redemption	36,000	14,400
Share issuance costs	-	(3,172,985)
Common shares repurchased	(100,000)	(72,050)
Balance, December 31, 2016	<u>289,809,668</u>	<u>\$ 185,768,388</u>
Issued on asset acquisitions (Note 4)	9,284,313	20,611,176
Dividend reinvestment plan	195,770	289,821
Share option redemption	481,000	153,750
Share issuance costs	-	(11,499)
Balance, March 31, 2017	<u><u>299,770,751</u></u>	<u><u>\$ 206,811,636</u></u>

### Stock Options and Warrants

A total of 14,020,000 options were outstanding as at March 31, 2017 (December 31, 2016 – 11,501,000). Of the outstanding amount, 14,020,000 options were exercisable (December 31, 2015 – 11,501,000). The details are as follows:

Stock options exercisable and outstanding are as follows:

Exercise Price	Vesting Date	Expiry Date	Outstanding March 31, 2017	Outstanding December 31, 2016
\$0.20	Nov 5, 2007	Nov 5, 2017	954,000	1,000,000
\$0.23	May 6, 2009	May 6, 2019	1,980,000	2,200,000
\$0.33	June 19, 2014	June 19, 2024	360,000	400,000
\$0.41	April 28, 2015	April 28, 2025	2,826,000	2,901,000
\$0.50	Sept 14, 2015	Sept 14, 2025	1,900,000	2,000,000
\$1.36	Dec 21, 2016	Dec 21, 2026	3,000,000	3,000,000
\$1.78	Mar 16, 2017	Mar 15, 2027	3,000,000	-
			14,020,000	11,501,000

Warrants exercisable and outstanding are as follows:

Exercise Price	Expiry Date	Outstanding December 31, 2016	Outstanding December 31, 2015
\$0.35	Feb 25, 2018	249,999	249,999
\$0.37	Feb 25, 2018	2,833,334	2,833,334
		3,083,333	3,083,333

The Board of Directors of the Corporation may from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Corporation, non-transferable options to purchase common shares.

## **CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

### **Operating Lease Commitments**

The Corporation leases buildings and lands in Winnipeg, MB, Kamloops, BC and Montreal, QC. The leases do not contain any contingent rent clauses. They do not include any provisions for transfer of title, nor does the Corporation participate in the residual value of the land. Therefore, these leases are considered operating leases as the risk and reward of ownership of the lands remain with the landlords. The leases expire between 2018 and 2054, with the leases expiring in 2027 and 2032 having up to 20 years and 25 years of renewals, respectively, at the option of the Corporation.

The future minimum lease payments, excluding incidental costs for which the Corporation is responsible, are as follows:

Less than one year	\$ 1,185,313
Between one and five years	4,572,734
More than five years	<u>21,336,489</u>
	\$ 27,094,537

## **Contingency**

The Corporation has no legal contingency provisions at either March 31, 2017 or December 31, 2016.

## **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. On March 31, 2017, SVI internalized management of StorageVault's stores and acquired the third party management contracts for over 55 stores from ARMS.

## **RELATED PARTY TRANSACTIONS**

During the three months ended March 31, 2017, the Corporation paid total management fees of \$293,321 (March 31, 2016 - \$173,353) to Access Results Management Services Inc. ("ARMS"), a corporation controlled by two directors and officers of the Corporation. Pursuant to a management agreement, ARMS is entitled to a base management fee of \$194,758 for fiscal 2017, as well as an annual performance fee of 4% of net operating income ("NOI"), defined as storage and related services revenue less property operating costs, if the Corporation attains 85% or greater of its annual board-approved budgeted NOI for that fiscal year.

During the three months ended March 31, 2017, the Corporation reimbursed operational wages of \$1,545,892 (March 31, 2016 - \$901,735) and training, travel and related expenses of \$16,804 (March 31, 2016 - \$56,089) to ARMS. These expenses, reimbursed at cost, were undertaken exclusively for the benefit of the Corporation.

During the three months ended March 31, 2017, the Corporation paid loan guarantee fees of \$42,500 (March 31, 2016 - \$44,678) to a director of the Corporation and to a related corporation. As a condition of the assumption of two mortgages, the director and corporation were required to provide a guarantee for the entire outstanding principal balance of the mortgages. The loan guarantee fee is compensation for the provision of this guarantee and is paid on a monthly basis at the annual rate of 0.5% and 0.4% of the original mortgage principal balances. A portion of the loan guarantee payments ceased in August 2016, while the remainder will end in September 2017.

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 portable storage throughout Canada. CPFI is a corporation related to two directors and officers of the Corporation. The Corporation pays a monthly royalty of 3.5% on the gross sales. During the three months ended March 31, 2017, the Corporation paid \$37,813 (March 31, 2016 - \$32,216) for royalties and \$1,112,595 (March 31, 2016- \$nil) 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, 2017 was \$nil (December 31, 2016 - \$13,797) payable to CPFI and \$1,650,145 (December 31, 2016 - \$1,191,647) payable to ARMS.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly and indirectly, and include directors. The remuneration of key management personnel for employment services rendered are as follows:

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Wages, management fees, bonuses and directors fees	32,450	34,628
Stock based compensation	<u>1,293,914</u>	<u>-</u>
	<u><u>1,326,364</u></u>	<u><u>34,628</u></u>

## ACQUISITION COMMITTEE AND ACQUISITION COMMITTEE MANDATE

The Corporation may, from time to time, purchase assets from parties related to the Corporation, and in particular, assets or shares owned or controlled by management of the Corporation or Access Self Storage Inc. (Access) or any of its subsidiaries or affiliates. To govern such potential related party transactions the Corporation has established an Acquisition Committee and an Acquisition Committee Mandate.

The Acquisition Committee is comprised of nine voting members, seven members being independently appointed and independent of management and two of which are appointed by Access. Acquisition Committee members who are deemed to be in a conflict of interest position with respect to related party transactions are required to abstain from voting on such related party transactions.

The mandate of the Corporation's Acquisition Committee is to review, evaluate, and approve the terms of proposed acquisitions in the context of the current strategic direction of the Corporation. In particular, and with respect to all related party transactions, the Acquisition Committee has the authority to appoint appraisers, environmental consultants, and professional advisors to evaluate and report to the Acquisition Committee on the suitability of such transactions. Thereafter, the Acquisition Committee provides its recommendation as to whether the Board of Directors should approve an acquisition.

The Board of Directors of the Corporation must accept the recommendations that the Acquisition Committee makes with respect to any related party transaction, and in particular, an acquisition involving assets or shares of Access or any of its subsidiaries or affiliates.

## ACCOUNTING POLICIES

The Corporation's significant accounting policies are summarized in Note 3 to the March 31, 2017 interim consolidated financial statements. There has been no change in significant accounting policies from the Corporation's audited consolidated annual financial statements from December 31, 2016. In addition, there has been no change in the Company's financial instrument risks.

### Non-IFRS Financial Measures

Management uses both IFRS and Non-IFRS Measures to assess the Corporation's operating performance. In this MD&A, management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other companies:

- i. Net Operating Income (“NOI”) – NOI is defined as storage and related services less operating costs. NOI does not include interest expense or income, depreciation and amortization, selling, general and administrative costs, acquisition and integration costs, stock based compensation costs or taxes. NOI assists management in assessing profitability and valuation from principal business activities.
- ii. Funds from Operations (“FFO”) – FFO is defined as net income (loss) excluding gains or losses from the sale of depreciable real estate, plus depreciation and 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.
- iii. Existing Self Storage and New Self Storage performance – “Existing Self Storage” are defined as those that the Corporation has owned or leased since the beginning of the previous fiscal year or as of January 1, 2016. “New Self Storage” are those that have not been owned or leased continuously since the beginning of the previous fiscal year. We believe the use of this metric combined with primary IFRS measures is beneficial in understanding the full operating performance of our operations during a growth period. Comparative figures for the New Self Storage and Existing Self Storage categories may differ from amounts reported in previous MD&A reports.

#### **Recent and Future Accounting Pronouncements**

The IASB and 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, 2016 annual audited consolidated financial statements.

#### **Disclosure Controls and Procedures**

Pursuant to National Instrument 52-109, which requires certification of disclosure in an issuer’s annual and interim filings, the Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Corporation’s internal disclosure controls and procedures for the three months ended March 31, 2017, including the design of internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. These officers have concluded that the Corporation’s disclosure controls and procedures are designed effectively to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed and reported within the time specified in those rules.

There have been no changes in the Corporation’s internal controls over financial reporting that have materially affected or are reasonably likely to affect the Corporation’s internal controls over financial reporting for the three months ended March 31, 2017.

## **RISKS AND UNCERTAINTIES**

As our primary business consists of owning and operating storage real estate, we are exposed to risks related to such ownership and operations that can adversely impact our business and financial position. 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.

### **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 operating 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 operating requirements, debt repayment obligations and will provide sufficient funding for anticipated capital expenditures.

### **Refinancing Risk**

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 unable to refinance an existing indebtedness on favorable terms, the Corporation may need to dispose of one or more properties on 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**

Even though storage is less susceptible to changes in the local economy, as storage space is often needed during times of both growth and recession, downturns in a local economy could negatively affect our revenues and NOI. A significant portion of storage customers use 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 storage rental demand.

### **Environmental Risk**

Environmental risk is inherent in the ownership of property. Various municipal, provincial and federal regulations can result in penalties or potential liability for remediation, to the extent that hazardous materials enter the environment. The presence of hazardous substances could also impair the Corporation’s ability to finance or sell the property, and might expose the Corporation to civil law suits. To mitigate such risk, the Corporation procures recent or updated environmental reports for all acquisitions to ascertain the risk, if any, that exist at a property. It also prohibits the storage of hazardous substances as a condition of the rental contract signed by customers.

**Credit Risk**

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their financial obligations to the Corporation. The risk of incurring bad debts often arises if storage customers relocate and cannot be found to enforce payment, or if storage customers 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 customers with delinquent accounts, and ultimately seizing the possessions of the customer. Additionally the Corporation typically rents to numerous customers, each of which constitutes significantly less than 5% of the Corporation's monthly revenue. This diversification in the customer base reduces credit risk from any given customer.

**Other Self Storage Operators or Storage Alternatives**

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 occupancy levels, rental rates or operating costs such as marketing.

**Acquisition of Future Locations**

Competition also exists when the Corporation attempts to grow through acquisitions of storage locations. An increase in the availability of investment funds in the general market, and a subsequent increase in demand for storage locations would have a tendency to increase the price for future acquisitions of storage locations and reduce the yields thereon.

**Anticipated Results from New Acquisitions**

The realization of anticipated results and value from acquisitions can be jeopardized from unexpected circumstances in integrating new stores into our existing operations, from situations we did not detect during our due diligence or from increased property tax following reassessment of newly acquired locations.

**Increase in Operating Costs**

Our operating margins can be negatively impacted from increases in operating costs such as property tax, staffing costs, insurance premiums, repairs and maintenances costs, utility costs and others due to various factors such as the need for governments to raise funds, natural disasters, commodity and energy prices.

**Climate and Natural Disasters**

The storage industry in Canada can be cyclical. Due to the climate, demand for storage is generally weaker in winter months with an increase in operating costs resulting in potentially lower NOI during Q1 and Q4.

Natural disasters, such as floods, earthquakes or severe winter storms may result in damage and business interruption losses that are greater than the aggregate limits of our insurance coverage. We maintain a comprehensive insurance policy to cover such events, however some insurance coverage may be or become unavailable or cost prohibitive.

**Litigation**

Legal claims may arise from the ordinary course of our business. Resolution of these claims would divert resources from the Corporation such cash to pay expenses and damages and the diversion of management's time and attention from the Corporation's business. The impact and results from litigation cannot be predicted with certainty and can have a material adverse effect on the business.

**Use and Dependency on Information Technology Systems**

Our business is heavily dependent on the use of information technology, with the majority of our new customers communicating and transacting with us electronically or over the phone. Commerce over the internet and the nature of our business requires us to retain private information about our customers. Significant aspects of these systems are centrally managed, such as our financial information and some are managed by third party vendors. These systems may be subject to telecommunication failures, cyber-attack, computer worms and viruses and other disruptive security breaches. All of which could materially impact our operations, resulting in additional costs and or in legal action either by governments agencies or private individuals.

# StorageVault Canada Inc.

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Toronto, ON

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