

StorageVault Canada Inc.
Consolidated Financial Statements

For the Years ended December 31, 2018 and 2017



Independent Auditor's Report

To the Shareholders of StorageVault Canada Inc.:

Opinion

We have audited the consolidated financial statements of StorageVault Canada Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of income (loss) and other comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis and the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sean Du Plessis.

Calgary, Alberta
February 27, 2019

MNP LLP

Chartered Professional Accountants

StorageVault Canada Inc.
Consolidated Statements of Financial Position
As at December 31

	2018	2017
Assets		
Real estate and equipment, net (Note 5)	\$ 915,442,044	\$ 780,024,751
Goodwill and intangible assets, net (Note 6)	77,526,826	72,060,892
Cash and short term deposits	19,695,873	16,152,428
Investment in Joint Venture (Note 14)	-	14,635,305
Prepaid expenses and other current assets	5,191,801	8,710,680
Accounts receivable	4,934,873	3,912,325
	\$ 1,022,791,417	\$ 895,496,381
Liabilities and Shareholders' Equity		
Long term debt (Note 7)	\$ 552,677,822	\$ 230,945,255
Lines of credit (Note 7)	149,733,334	332,153,083
Deferred tax liability (Note 10)	47,026,009	49,156,628
Accounts payable and accrued liabilities	7,394,616	10,784,409
Unearned revenue	5,033,079	4,381,889
	761,864,860	627,421,264
Shareholders' Equity		
Share capital (Note 8)	338,552,701	319,571,781
Dividends paid (Note 8)	(8,726,868)	(5,070,304)
Contributed surplus (Note 8)	5,218,589	3,540,210
Deficit	(74,117,865)	(49,966,570)
	260,926,557	268,075,117
	\$ 1,022,791,417	\$ 895,496,381

Commitments and Contingencies (Note 15)

Subsequent Events (Note 16)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

"signed" Steven Scott
 Director

"signed" Iqbal Khan
 Director

StorageVault Canada Inc.
Consolidated Statements of Changes in Equity
For the Years Ended December 31

	2018	2017
Common Share Capital		
Balance, beginning of the period	\$ 319,571,781	\$ 185,768,388
Common shares issued, net of issuance costs (Note 8)	18,980,920	134,303,177
Common shares repurchased (Note 8)	-	(499,784)
Balance, end of the period	338,552,701	319,571,781
Contributed Surplus		
Balance, beginning of the period	3,540,210	2,243,239
Redemption of stock options and warrants (Note 8)	(223,252)	(237,315)
Stock based compensation (Note 8)	1,901,631	1,534,286
Balance, end of the period	5,218,589	3,540,210
Deficit		
Balance, beginning of the period	(49,966,570)	(30,527,795)
Retirement of stock options and warrants	-	(5,586,143)
Net income (loss) and comprehensive income (loss)	(24,151,295)	(13,852,632)
Balance, end of the period	\$ (74,117,865)	\$ (49,966,570)

The accompanying notes are an integral part of these consolidated financial statements.

StorageVault Canada Inc.
Consolidated Statements of Income (Loss) & Comprehensive Income (Loss)
For the Years Ended December 31

	2018	2017
Revenue		
Storage and related services	\$ 94,666,809	\$ 60,671,031
Management fees	1,716,790	1,217,483
	96,383,599	61,888,514
Expenses		
Operating costs	30,523,949	21,294,478
Acquisition and integration costs	2,248,751	5,373,955
Selling, general and administrative	6,192,383	4,038,559
Share of net loss in joint venture (Note 14)	-	157,278
Stock based compensation (Note 8)	1,901,631	1,534,286
Depreciation, amortization and goodwill (Note 5, 6)	58,857,132	38,608,471
Interest	28,875,906	15,639,157
	128,599,752	86,646,184
Net income (loss) and comprehensive income (loss) before tax	(32,216,153)	(24,757,670)
Deferred tax recovery (Note 10)	8,064,858	10,905,038
Net income (loss) and comprehensive income (loss) after tax	\$ (24,151,295)	\$ (13,852,632)
Net income (loss) per common share		
Basic	\$ (0.069)	\$ (0.044)
Diluted	\$ (0.069)	\$ (0.044)
Weighted average number of common shares outstanding		
Basic	351,893,667	317,487,007
Diluted	351,893,667	317,487,007

The accompanying notes are an integral part of these consolidated financial statements.

StorageVault Canada Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31

	2018	2017
Cash provided by (used for) the following activities:		
Operating activities		
Net income (loss) and comprehensive income (loss) after tax	\$ (24,151,295)	\$ (13,852,632)
Adjustment for non-cash items:		
Deferred tax recovery (Note 10)	(8,064,858)	(10,905,038)
Depreciation, amortization and goodwill adjustment (Notes 5, 6)	58,857,132	38,608,471
Amortization of deferred financing costs	1,137,473	740,866
Stock based compensation (Note 8)	1,901,631	1,534,286
Gain on disposal of real estate and equipment	(352,184)	(147,910)
Cash flow from operations before non-cash working capital balances	29,327,899	15,978,043
Net change in non-cash working capital balances		
Accounts receivable	(1,022,548)	(1,664,429)
Prepaid expenses and other current assets	3,518,879	(6,871,244)
Accounts payable and accrued liabilities	(7,752,575)	3,066,967
Unearned revenue	651,190	91,461
	24,722,845	10,600,798
Financing activities		
Common shares issued, net of issuance costs (Note 8)	1,598,020	83,471,772
Repurchase of common shares (Note 8)	-	(499,785)
Dividends paid	(2,113,765)	(2,394,337)
Advances from long term debt	419,443,038	483,553,119
Repayment of long term debt	(281,267,693)	(103,702,241)
Cancellation of share options and warrants	-	(5,823,458)
	137,659,600	454,605,070
Investing activities		
Cash paid in business combinations (Note 4)	(140,263,193)	(457,532,033)
Additions to real estate and equipment (Note 5, 6)	(18,611,830)	(5,185,319)
Proceeds on disposal of real estate and equipment	36,023	1,794,020
	(158,839,000)	(460,923,332)
Increase in cash and short term deposits	3,543,445	4,282,536
Cash and short term deposits balance, beginning of period	16,152,428	11,869,892
Cash and short term deposits balance, end of period	\$ 19,695,873	\$ 16,152,428

The accompanying notes are an integral part of these consolidated financial statements.

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

1. Description of Business

The consolidated financial statements of StorageVault Canada Inc. and its subsidiaries (the “Corporation”) as at and for the year ended December 31, 2018, were authorized for issuance by the Board of Directors of the Corporation on February 26, 2019. The Corporation is incorporated under the Business Corporations Act of Alberta and is domiciled in Canada. Its shares are publicly traded on the TSX Venture Exchange (“Exchange”). The address of its registered office is 1000 – 250 2nd Street SW, Calgary, AB, T2P 0C1.

The Corporation’s primary business is owning, managing and renting self storage and portable storage space to individual and commercial customers.

2. Basis of Presentation

These consolidated financial statements and the notes thereto present the Corporation’s financial results of operations and financial position under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) as at January 1, 2018.

The consolidated financial statements have been prepared under the historical cost method, except for the revaluation of certain financial assets and financial liabilities to fair value. The consolidated financial statements were prepared on a going concern basis, and are presented in Canadian dollars, which is the Corporation’s functional currency.

3. Accounting policies

Basis of Consolidation

The consolidated financial statements include the accounts of StorageVault Canada Inc., its wholly owned subsidiaries, Sentinel Self-Storage Corporation and Spyhill Ltd., and the consolidated entity 1712066 Alberta Ltd. (“1712066”), all of which are headquartered in Toronto, ON. The financial statements for the consolidated entities are prepared for the same reporting period as StorageVault Canada Inc. using consistent accounting policies. All intercompany transactions and balances have been eliminated in the preparation of these consolidated financial statements.

Consolidated Entity

StorageVault Canada Inc. established 1712066 for the purpose of refinancing a mortgage on its Regina, SK property using a defeasance process. The entity was dissolved on January 19, 2017. StorageVault Canada Inc. did not have any direct or indirect shareholdings in 1712066. An entity is consolidated if, based on an evaluation of the substance of its relationship with StorageVault Canada Inc., it is determined that StorageVault Canada Inc. has rights, either directly through ownership or indirectly through contractual arrangements, to direct the relevant activities of the other entity. 1712066 was established under terms that impose strict limitations on the decision making powers of its management and that results in StorageVault Canada Inc. receiving the majority of the benefits related to its operations and net assets, being exposed to the majority of the risks incident to its activities, and retaining the majority of the residual or ownership risks related to its assets.

Note 3 – Continued

Interest in Joint Venture

The Corporation had an interest in a joint venture, through its wholly owned subsidiary Sentinel Self-Storage Corporation, Spyhill Ltd. (“JV”), which was a jointly controlled entity. The Corporation recognized its interest in the JV using the equity method of accounting. As at February 1, 2018, the Corporation wholly owned the JV through the purchase of the remaining 50% of its shares (Note 4).

Revenue Recognition

Revenue from the rendering of services and sales of goods are recognized at the fair value of consideration received or receivable after the deduction of any trade discounts and excluding sales taxes.

The Corporations revenue comprises the renting of storage units to customers, managing storage facilities on behalf of third parties and sale of merchandise, including locks, boxes, packing supplies and equipment.

Revenue earned from the renting of storage units is accounted for under IAS17 – Leases. Storage units are rented to customers pursuant to rental agreements which provide for weekly or monthly rental terms with non-refundable rental payments. The rental agreements may be terminated by the customer without further obligation or cost upon vacating the storage unit. Revenue from rental agreements is recognized over the rental term pursuant to the rental agreement. Non-refundable customer deposits, which are received to hold a unit for rent at a future date, are deferred and recognized as revenue upon commencement of the rental agreement. Receipts of rental fees for future periods are deferred and recognized as revenue when each respective monthly period commences. Provision is made for expected allowances as necessary.

The Corporation earns a management fee based on a percentage of gross revenues of the operations for managing storage facilities for third parties. Revenue is recognized over time when the services are rendered.

Revenue from the sale of merchandise, including locks, boxes, packing supplies and equipment, is recognized at a point in time when the merchandise is delivered to the customer.

Business Combinations

All business combinations are accounted for by applying the acquisition method. Upon acquisition, the assets (including intangible assets), liabilities and contingent liabilities acquired are measured at their fair value. The Corporation recognizes intangible assets as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management’s judgment and includes assumptions on the timing and amount of future incremental cash flows generated by the assets acquired and the selection of an appropriate cost of capital. Acquisition and integration costs are recognized in profit or loss as incurred.

Note 3 – Continued

Goodwill represents the excess of the identifiable cost of an acquisition over the fair value of the Corporation's share of the net assets/net liabilities acquired at the date of acquisition. If the identifiable cost of acquisition is less than the fair value of the Corporation's share of the net assets/net liabilities acquired (i.e. a discount on acquisition) the difference is credited to the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in the period of acquisition. At the acquisition date, goodwill acquired is recognized as an asset and allocated to each cash-generating unit ("CGU") expected to benefit from the business combination's synergies and to the lowest level at which management monitors the goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Corporation obtains complete information about facts and circumstances that existed as of the acquisition date up to a maximum of one year.

Significant Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include, but are not necessarily limited to:

- Real estate and equipment - The Corporation determines the carrying value of its real estate and equipment based on policies that incorporate estimates, assumptions and judgments relative to the useful lives and residual values of the assets.
- Impairment of non-financial assets - Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The estimated future cash flows are derived from management estimates, budgets and past performance and do not include activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Note 3 – Continued

- Purchase price allocations - Estimates are made in determining the fair value of assets and liabilities, including the valuation of separately identifiable intangibles acquired as part of an acquisition. These estimates may be further based on management's best assessment of the related inputs used in valuation models, such as future cash flows and discount rates.
- Bad debts - The Corporation estimates potential bad debts based on an analysis of historical collection activity and specific identification of overdue accounts. Actual bad debts may differ from estimates made.
- Income taxes - Income taxes are subject to measurement uncertainty due to the possibility of changes in tax legislation or changes in the characterization of income sources.
- Stock based compensation - Compensation costs accrued for stock based compensation plans are subject to the estimation of the ultimate payout using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

Management judgments that may affect reported amounts of assets and liabilities, income and expenses include but are not necessarily limited to:

- For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash inflows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of the CGU can directly impact the recoverability of the assets included within the CGU.
- The determination of which entities require consolidation is subject to management judgment regarding levels of control, assumptions of risk and other factors that may ultimately include or exclude an entity from the classification of a subsidiary or other entity requiring consolidation.
- For the purpose of recording asset acquisitions, management must exercise judgment to determine if the acquisition meets the definition of a business. Such determination may affect the recorded amounts of specific assets and liabilities, goodwill and/or transaction costs.
- The Corporation applied judgment in determining control over the JV where the Corporation held 50% equity ownership. The judgment was based on a review of all contractual agreements to determine if the Corporation has control over the activities, projects, financial and operating policies of the JV. Through a shareholder agreement, the Corporation was guaranteed 50% of seats on the board of the JV and participated in all significant financial and operating decisions. Joint control was established by the shareholder arrangement that required unanimous agreement on decisions made on relevant activities.
- Management has applied judgment in assessing that the management contracts acquired have an indefinite useful life because the Corporation purchased a complete system to operationally manage its own business and that of other self storage businesses. The Corporation has acquired substantial know-how and expertise in managing stores owned by third parties, including long term relationships, which the Corporation will have the benefit of for an indefinite period of time. The management contracts have therefore been deemed to have an indefinite useful life.

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 3 – Continued

Cash and Short Term Deposits

Cash and short term deposits on these Consolidated Statements of Financial Position are comprised of cash at bank and on hand, and short term, highly liquid deposits with an original maturity of 3 months or less. For the purpose of these Consolidated Statements of Cash Flows, cash and short term deposits are defined as above, net of outstanding bank overdrafts, except where no right of set-off exists.

Real Estate and Equipment

Real estate and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) during the financial period in which they are incurred.

Once an asset is available for use in the location and condition intended by management, it is depreciated to its residual value using the appropriate depreciation rate set forth by management. Land is not depreciated.

Depreciation is calculated using the declining balance method to depreciate the cost of real estate and equipment to their residual values over their estimated useful lives, as follows:

Land, Yards, Buildings & Improvements -	Buildings	4%
	Leasehold improvements	20%
	Business operating equipment	10%
	Fences and parking lots	8%
Storage Containers -	Storage containers	10%
Vehicles -	Vehicles	30% to 40%
	Truck decks and cranes	20%
Office and Computer Equipment -	Furniture and equipment	20%
	Computer equipment	45%

The residual value and useful lives of real estate and equipment are reviewed, and adjusted if appropriate, at each Consolidated Statement of Financial Position date. An asset's carrying value is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. These impairment losses are recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life.

Note 3 – Continued

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets and liabilities acquired at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Infinite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization begins when an asset is available for use and is calculated on a straight-line basis to allocate the cost of assets over their estimated useful lives as follows: Franchise Agreements - 10 years; Tenant Relationships - 22 to 48 months; Website Development Costs - 12 months.

Indefinite life intangible assets, consisting of management contracts, are carried at cost and are not amortized.

Goodwill and indefinite life intangibles are reviewed for impairment annually by assessing the recoverable amount of each CGU to which it relates, where applicable. The recoverable amount is the higher of fair value less costs of disposal, and value in use. When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Any impairment is recognized immediately in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and is not subsequently reversed.

Leases

A lease is defined as an agreement whereby the lessor conveys to the lessee, in return for a payment or a series of payments, the right to use a specific asset for an agreed period of time. Where the Corporation is a lessee and has substantially all the risks and rewards of ownership of an asset, the arrangement is considered a finance lease. Assets held under a finance lease are recognized as assets of the Corporation within real estate and equipment at the inception of the lease at the lower of fair value and the present value of the minimum lease payments. Assets held under finance leases are amortized on a basis consistent with similar owned assets. Payments made under finance leases are apportioned between capital repayments and interest expense charged to the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Other leases where the Corporation is a lessee are treated as operating leases. Payments made under operating leases are recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) on a straight-line basis over the term of the lease.

Income Taxes

Income tax is comprised of current tax and deferred tax. Income tax is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the tax expected to be payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Note 3 – Continued

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Stock Based Compensation

The fair value of stock options issued to directors, officers and consultants under the Corporation's stock option plan is estimated at the date of issue using the Black-Scholes option pricing model, and charged to the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss) and contributed surplus. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. On the exercise of options, the cash consideration received and the fair value of the option previously credited to contributed surplus are credited to share capital.

The fair value of options issued to advisors in conjunction with financing transactions is estimated at the date of issue using the fair value of the goods and services received first, if determinable, then by the Black-Scholes option pricing model, and charged to share capital and contributed surplus over the vesting period. On the exercise of agent options, the cash consideration received and the fair value of the option previously credited to contributed surplus are credited to share capital.

When stock options are cancelled, it is treated as if the stock options had vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately. However, if a new option is substituted for the cancelled option and is designated as a replacement option on the date that it is granted, the cancelled and the new options are treated as if they were a modification of the original option.

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Corporation's share purchase options. Forfeitures are estimated for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period.

Note 3 – Continued

Income (Loss) per Share

Basic income (loss) per common share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing the net earnings by the weighted average number of shares outstanding as adjusted for the potential dilution that would occur if outstanding stock options, subordinated debentures, preferred shares or other potentially dilutive financial instruments were exercised or converted to common shares.

The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of shares are shown in equity as a deduction from the proceeds received.

Segment Reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Corporation's CEO and/or CFO in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Changes in Accounting Policies

The Corporation has adopted the following new and revised standards effective January 1, 2018:

IFRS 9 - Financial Instruments

The International Accounting Standards Board issued IFRS 9 – Financial Instruments that introduces new requirements for classifying and measuring financial instruments. The standard is effective for fiscal years beginning on or after January 1, 2018. IFRS 9 affects the classification and measurement of financial assets and financial liabilities and the recognition of expected credit losses. The Corporation adopted IFRS 9 effective January 1, 2018 on a retrospective basis. The prior year comparative information has not been adjusted with respect to the adoption of IFRS 9's classification and measurement requirements as the adoption of IFRS 9 did not result in material changes to the determination of the Corporation's anticipated credit losses and associated allowance for doubtful accounts.

There were no adjustments to the carrying amounts of financial instruments as a result of the measurement classification category changes from IAS 39 to IFRS 9.

Consistent with the requirements of IFRS 9, the Corporation assesses the lifetime expected credit losses on an ongoing basis and updates its assumptions, if and when required.

Note 3 – Continued

- a) Financial assets - Pursuant to IFRS 9, the classification of financial assets is based on the Corporation's assessment of its business model for holding financial assets. The classification categories are as follows:
- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
 - Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
 - Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

Financial assets measured at amortized cost are measured at cost using the effective interest method. Impairment of financial assets are recognized in accordance with IFRS 9's three stage process and credit losses expected to occur over the first 12 months of the life of the instrument are recognized immediately. The life time credit losses are recognized when the credit risk has increased significantly since the initial recognition. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

- b) Financial liabilities - The classification of financial liabilities is determined by the Corporation at initial recognition. The classification categories are as follows:
- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).
 - Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

StorageVault Canada Inc.
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Note 3 – Continued

The following table summarizes the classification impacts of the adoption of IFRS 9:

Financial instrument	Previous classification under IAS 39	New classification under IFRS 9
Financial asset:		
Accounts receivable and other receivables	Loans and receivables	Amortized cost
Cash and short term deposits	Loans and receivables	Amortized cost
Financial liabilities:		
Long term debt and lines of credit	Other liabilities	Amortized cost
Accounts payable and other liabilities	Other liabilities	Amortized cost

IFRS 15 - Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, "Revenue from contracts with customers". IFRS 15 replaced existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018. The standard outlines a single comprehensive model for entities for revenue recognition arising from contracts with customers.

The Corporation has completed its evaluation of the impact of IFRS 15 on its consolidated financial statements. The Corporation's practices of revenue recognition are unchanged upon adoption of this standard, therefore, the adoption of IFRS 15 did not result in a material impact to the consolidated financial statements. The Corporation has elected to apply the standard on a modified retrospective basis. Under this approach, the 2017 comparative period was not restated. There was no cumulative transitional adjustment to the opening retained earnings balance required.

Future Accounting Pronouncements

The Corporation has reviewed new and revised accounting pronouncements that have been issued, but are not yet effective, and determined that the following may have an impact on the Corporation:

IFRS 16, "Leases"

On January 13, 2016, the IASB published a new standard, IFRS 16, "Leases". The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted, but only if the entity is also applying IFRS 15, "Revenue from contracts with customers". Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. The Corporation is still evaluating the impact the adoption of this standard will have on its consolidated financial statements. The Corporation expects to apply the standard by its mandatory effective date.

StorageVault Canada Inc.
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4. Acquisitions

During the year ended December 31, 2018, the Corporation completed the below transactions that met the definition of a business under IFRS 3 – Business Combinations. These acquisitions have been accounted for using the acquisition method with the results of the operations being included in the consolidated financial statements of the Corporation since the date of acquisition. Details of the acquisitions are:

First Quarter Acquisition:

On February 1, 2018, the Corporation acquired the remaining 50% interest in the JV for a stated purchase price of \$14,460,181. The acquisition was an arm’s length transaction. At the date of the acquisition, the Corporation had a 50% interest in the JV, which was accounted for using the equity method (Note 14). The Corporation accounted for this acquisition as a business combination achieved in stages, which required a re-measurement of the previously held interest in the JV to fair value as of the acquisition date. There was no gain or loss on the step acquisition. This fair value amount is added to the consideration transferred in determining the amount of goodwill.

A summary of the assets acquired are as follows:

Land, Yards, Buildings & Improvements	\$ 31,344,842
Tenant Relationships	3,005,158
	<u>34,350,000</u>
Working Capital Adjustment	(4,786,209)
Deferred Tax	(5,934,239)
Goodwill	5,465,934
Net Assets Acquired	<u><u>29,095,486</u></u>

Consideration paid for the net assets acquired was obtained from the following:

Cash	14,460,181
Fair Value of 50% equity interest	14,635,305
	<u><u>29,095,486</u></u>

Selected information for the acquisition, since its acquisition date:

Revenue	2,634,314
Operating costs	887,970
	<u>1,746,344</u>
Amortization	2,470,026
Interest	985,030
Net income (loss)	<u><u>\$ (1,708,712)</u></u>

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
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Note 4 – Continued

Second Quarter Acquisitions:

During the second quarter, the Corporation completed the acquisition of four self storage locations in Ontario for \$69,400,000 (subjected to customary adjustments). These acquisitions were arm's length transactions. The purchases were paid for by advances from long term debt, issuance of common shares and cash on hand.

A summary of the acquisitions are as follows:

	Two Self Storage Locations	One Self Storage Location	One Self Storage Location	Total
Acquisition date:	May 22, 2018	June 22, 2018	June 28, 2018	
Land, Yards, Buildings & Improvements	\$ 61,888,079	\$ 1,826,939	\$ 700,000	\$ 64,415,018
Tenant Relationships	4,611,921	373,061	-	4,984,982
Net Assets Acquired	<u>66,500,000</u>	<u>2,200,000</u>	<u>700,000</u>	<u>69,400,000</u>
Consideration paid for the net assets acquired was obtained from the following:				
Cash	12,838,273	1,197,164	700,000	14,735,437
Debt	42,000,000	-	-	42,000,000
Common Shares	11,661,727	1,002,836	-	12,664,563
	<u>66,500,000</u>	<u>2,200,000</u>	<u>700,000</u>	<u>69,400,000</u>
Selected information for the acquisition, since its acquisition date:				
Revenue	2,684,274	173,277	19,043	2,876,594
Operating costs	575,291	75,575	716	651,582
	2,108,983	97,702	18,327	2,225,012
Amortization	1,944,228	98,558	17,368	2,060,154
Interest	1,103,400	-	-	1,103,400
Net income (loss)	<u>\$ (938,645)</u>	<u>\$ (856)</u>	<u>\$ 959</u>	<u>\$ (938,542)</u>

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 4 – Continued

Third Quarter Acquisitions:

During the third quarter, the Corporation completed the acquisition of six self storage locations for \$42,650,000 (subjected to customary adjustments). The acquisitions were arm's length transactions. The purchases were paid for by advances from long term debt and cash on hand.

A summary of the acquisitions are as follows:

	One Self Storage Location	Four Self Storage Location	One Self Storage Location	Total
Acquisition Date:	July 24, 2018	Sept. 21, 2018	Sept. 24, 2018	
Land, Yards, Buildings & Improvements	\$ 14,012,870	\$ 19,017,113	\$ 4,469,538	\$ 37,499,521
Tenant Relationships	987,130	3,382,887	780,462	5,150,479
Net Assets Acquired	<u>15,000,000</u>	<u>22,400,000</u>	<u>5,250,000</u>	<u>42,650,000</u>

Consideration paid for the net assets acquired was obtained from the following:

Cash	15,000,000	5,600,000	-	20,600,000
Debt	-	16,800,000	5,250,000	22,050,000
	<u>15,000,000</u>	<u>22,400,000</u>	<u>5,250,000</u>	<u>42,650,000</u>

Selected information for the acquisitions, since their acquisition dates:

Revenue	526,632	713,215	191,311	1,431,158
Operating costs	123,389	268,673	67,503	459,564
	403,243	444,542	123,808	971,594
Amortization	341,088	472,211	116,063	929,362
Interest	494,649	218,511	11,100	724,261
Net income (loss)	<u>\$ (432,494)</u>	<u>\$ (246,180)</u>	<u>\$ (3,355)</u>	<u>\$ (682,029)</u>

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 4 – Continued

Fourth Quarter Acquisitions:

During the fourth quarter, the Corporation completed the acquisition of five self storage locations for \$29,300,000 (subjected to customary adjustments). The acquisitions consisted of both arm’s length and non-arm’s length transactions. The purchases were paid for by cash on hand, the issuance of common shares, and first mortgage financing.

A summary of the acquisitions are as follows:

	Two Self Storage Location	One Self Storage Location	Two Self Storage Location	Total
Acquisition date:	Oct. 10, 2018	Oct. 15, 2018	Oct. 24, 2018	
Land, Yards, Buildings & Improvements	\$ 10,473,554	\$ 4,250,000	\$ 12,116,595	\$ 26,840,149
Tenant Relationships	1,326,446	-	1,133,405	2,459,851
Net Assets Acquired	<u>11,800,000</u>	<u>4,250,000</u>	<u>13,250,000</u>	<u>29,300,000</u>
Consideration paid for the net assets acquired was obtained from the following:				
Cash	2,950,000	1,062,500	4,250,000	8,262,500
Debt	8,850,000	3,187,500	5,000,000	17,037,500
Common Shares	-	-	4,000,000	4,000,000
	<u>11,800,000</u>	<u>4,250,000</u>	<u>13,250,000</u>	<u>29,300,000</u>
Selected information for the acquisitions, since their acquisition dates:				
Revenue	353,414	76,023	288,146	717,583
Operating costs	109,868	11,778	88,083	209,729
	<u>243,547</u>	<u>64,245</u>	<u>200,063</u>	<u>507,855</u>
Amortization	237,776	25,385	202,905	466,066
Interest	99,400	33,693	2,081	135,173
Net income (loss)	<u>\$ (93,629)</u>	<u>\$ 5,167</u>	<u>\$ (4,923)</u>	<u>\$ (93,384)</u>

StorageVault Canada Inc.
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5. Real Estate and Equipment

	<u>Land, Yards, Buildings & Improvements</u>	<u>Storage Containers</u>	<u>Intangible Tenant Relationships</u>	<u>Vehicles</u>	<u>Office & Computer Equipment</u>	<u>Total</u>
COST						
December 31, 2016	294,499,978	12,338,478	40,038,735	4,541,960	1,181,155	352,600,306
Additions	3,932,281	364,712	-	385,443	502,883	5,185,319
Disposals	(1,687,946)	-	-	(34,323)	(443)	(1,722,712)
Business acquisitions	447,252,899	-	42,222,792	-	125,000	489,600,691
December 31, 2017	743,997,212	12,703,190	82,261,527	4,893,080	1,808,595	845,663,604
Additions	11,524,966	6,026,887	-	205,573	854,404	18,611,830
Disposals	(10,648)	(17,500)	-	(28,159)	-	(56,307)
Business acquisitions	160,099,529	-	15,600,471	-	-	175,700,000
December 31, 2018	915,611,059	18,712,577	97,861,998	5,070,494	2,662,999	1,039,919,127
ACCUMULATED DEPRECIATION						
December 31, 2016	12,284,387	3,190,978	8,895,222	2,353,712	384,284	27,108,583
Depreciation	21,912,620	928,054	14,778,113	738,781	249,303	38,606,871
Disposals	(43,482)	-	-	(33,097)	(22)	(76,601)
December 31, 2017	34,153,525	4,119,032	23,673,335	3,059,396	633,565	65,638,853
Depreciation	34,427,544	1,257,998	22,178,673	581,547	411,370	58,857,132
Disposals	(213)	(271)	-	(18,418)	-	(18,902)
December 31, 2018	68,580,856	5,376,759	45,852,008	3,622,525	1,044,935	124,477,083
NET BOOK VALUE						
December 31, 2017	709,843,687	8,584,158	58,588,192	1,833,684	1,175,030	780,024,751
December 31, 2018	847,030,203	13,335,818	52,009,990	1,447,969	1,618,064	915,442,044

Included in Land, Yards, Buildings & Improvements is Land at a value of \$298,882,932 (December 31, 2017 - \$245,377,231).

Included in Land, Yards, Buildings & Improvements is \$7,770,200 (December 31, 2017 - \$1,189,411) of construction in process that is not being depreciated.

StorageVault Canada Inc.
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6. Goodwill and Intangible Assets

	<u>Other Intangible Assets</u>				<u>Total</u>
	<u>Goodwill</u>	<u>Management Contracts</u>	<u>Franchise Agreements</u>	<u>Website Development</u>	
COST					
December 31, 2016	3,423,490	-	20,000	23,172	3,466,662
Additions	-	300,000	-	-	300,000
Business acquisitions	52,337,402	16,000,000	-	-	68,337,402
December 31, 2017	55,760,892	16,300,000	20,000	23,172	72,104,064
Additions	5,465,934	-	-	-	5,465,934
December 31, 2018	61,226,826	16,300,000	20,000	23,172	77,569,998
ACCUMULATED AMORTIZATION					
December 31, 2016	-	-	18,400	23,172	41,572
Amortization	-	-	1,600	-	1,600
December 31, 2017	-	-	20,000	23,172	43,172
December 31, 2018	-	-	20,000	23,172	43,172
NET BOOK VALUE					
December 31, 2017	55,760,892	16,300,000	-	-	72,060,892
December 31, 2018	61,226,826	16,300,000	-	-	77,526,826

At December 31, 2018 the Corporation performed its annual impairment test on goodwill and its indefinite-life intangible assets. Goodwill is allocated to the group of CGU's that benefited from the synergies of the business combination on which the goodwill arose. The Corporation used the fair value less costs of disposal method to determine the recoverable amount of the CGUs. Based on the impairment test performed, the Corporation concluded that no impairment exists on its goodwill and indefinite-life intangible assets.

Note 6 – Continued

Information regarding each impairment test is as follows:

Manitoba and Saskatchewan group of CGU's

- The cash flow projection includes specific estimates based on the expected life of the properties, with a growth rate of 2% which is consistent with management's knowledge of the local market and is lower than the CGU's recent historical growth rate.
- Cash flows were discounted at a pre-tax rate of 6.08% based on management's experience in this geographic region.

Kamloops, BC group of CGU's

- The cash flow projection includes specific estimates based on the expected life of the properties, with a growth rate of 4%. The Corporation has seven stores in the region and is able to disburse costs and operate more efficiently.
- Cash flows were discounted at a pre-tax rate of 8.45% based on management's experience in this geographic region and the fact that the properties are on leased land.

London, ON group of CGU's

- The cash flow projection includes specific estimates based on the expected life of the property, with a growth rate of 2% which is consistent with management's knowledge of the local market.
- Cash flows were discounted at a pre-tax rate of 6.73% based on management's experience in this geographic region.

Sentinel Self-Storage group of CGU's

- The cash flow projection includes specific estimates based on the expected life of the properties, with a growth rate of 4%. Given the location of the stores in this portfolio, over 20 stores in major markets and highly desirable locations in Canada, management believes that this growth rate is sustainable, and is consistent with the CGU's historical growth rate.
- Cash flows were discounted at a pre-tax rate of 5.05% based on management's experience and the superior quality and location of these properties.

Portable Storage group of CGU's

- The cash flow projection includes specific estimates based on the expected life of storage containers, with a growth rate of 7% based on management's experience and the exclusive marketing channels the Corporation has for this product type.
- Cash flows were discounted at a pre-tax rate of 6.89% based on management's experience in these markets.

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Note 6 – Continued

Management Division CGU

- The cash flow projection includes specific estimates for five years with a terminal growth rate of 4%, which management feels would be representative of the future indefinite cash flows from this asset.
- Cash flows were discounted at a pre-tax rate of 20% based on what management deemed appropriate for the nature of this type of revenue stream.

The most sensitive inputs to the value in use model used for these group of CGU's are the growth rate and the discount rate:

- A 1% increase or decrease in the growth rate would not result in an impairment of these groups of CGU's.
- A 1% increase or decrease in the discount rate would not result in an impairment of these groups of CGU's.

Group of CGU's	Goodwill	Carrying Value	Recoverable Amount
Manitoba and Saskatchewan	2,621,716	28,416,958	39,838,803
Kamloops, BC	76,470	7,982,147	14,222,890
London, ON	142,807	2,196,481	5,058,611
Sentinel Self-Storage	52,442,159	410,798,799	550,966,506
Portable Storage	2,578,968	17,832,236	21,859,603
Management Division	3,364,706	16,000,000	23,718,250
	61,226,826	483,226,621	655,664,663

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7. Long Term Debt and Lines of Credit

	December 31, 2018			December 31, 2017		
	Rate Range	Weighted Average	Balance	Rate Range	Weighted Average	Balance
<u>Mortgages</u>						
Fixed/Variable	3.18% to 5.20%	4.24%	555,183,118	3.18% to 5.50%	4.21%	233,190,726
	<i>Maturity: January 2019 to December 2028</i>			<i>Maturity: March 2018 to March 2025</i>		
Deferred financing costs net of accretion of \$2,514,319 (Dec 31, 2017 - \$1,376,845)			(2,505,296)			(2,245,471)
			552,677,822			230,945,255
<u>Lines of Credit</u>						
Variable Rate	Prime plus 1.00% or BA plus 2.35%	4.47%	149,733,334	Prime plus 1.00% or BA plus 2.75%	4.21%	332,153,083
	<i>Maturity: July 2019 to April 2021</i>			<i>Maturity: March 2018 to August 2020</i>		
			702,411,156			563,098,338

The bank prime rate at December 31, 2018 was 3.95% (December 31, 2017 – 3.20%).

Mortgages are secured by a first mortgage charge on the real estate 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 debt service coverage ratios, a fixed charge coverage ratio, a tangible net worth ratio, and a loan to value ratio. As of December 31, 2018, the Corporation is in compliance with all covenants.

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

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

Year 1	\$	170,685,310 (includes \$149.7 million lines of credit)
Year 2	\$	97,527,172
Year 3	\$	76,538,824
Year 4	\$	83,784,306
Year 5	\$	34,109,775
Thereafter	\$	242,271,065

StorageVault Canada Inc.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

8. Share Capital

Authorized: Unlimited number of common, voting shares of no par value.

Authorized: Unlimited number of preferred non-voting shares issuable in series at an issuance price of \$1 per share.

Common shares issued:

	<u>Number of Shares</u>	<u>Amount</u>
Balance, December 31, 2016	289,809,668	\$ 185,768,388
Bought deal	32,076,000	85,001,400
Issued on asset acquisitions	22,520,098	51,320,000
Dividend reinvestment plan	529,268	1,055,801
Share option redemption	526,000	197,750
Share issuance costs	-	(3,271,774)
Common shares repurchased	(234,100)	(499,784)
Balance, December 31, 2017	<u>345,226,934</u>	<u>\$ 319,571,781</u>
Issued on acquisitions (Note 4)	6,313,955	15,661,727
Dividend reinvestment plan	613,694	1,497,892
Share option and warrant redemption	3,568,391	1,906,263
Share issuance costs	-	(84,962)
Balance, December 31, 2018	<u><u>355,722,974</u></u>	<u><u>\$ 338,552,701</u></u>

Bought Deal

On July 19, 2017, the Corporation issued 32,076,000 common shares at a price of \$2.65 per common share for gross proceeds of \$85,001,400.

Dividend Reinvestment Plan

Represents common shares issued under the Corporation's dividend reinvestment plan ("DRIP") for holders of common shares approved on April 18, 2016. Under the terms of the DRIP, eligible registered holders of a minimum of 10,000 Common Shares (the "Shareholders") may elect to automatically reinvest their cash dividends, payable in respect to the common shares, to acquire additional common shares, which will be issued from treasury or purchased on the open market. The Corporation may initially issue up to 5,000,000 common shares under the DRIP, which may be increased upon Board of Directors approval, acceptance of the increase by the Exchange, and upon public disclosure of the increase.

Common Shares Repurchased

Represents common shares repurchased under the Corporation's Normal Course Issuer Bid ("NCIB") policy allowing for the purchase for cancellation, during the 12-month period starting August 18, 2017, up to 17,198,962 of the common shares. The NCIB has been renewed to allow the Corporation to purchase for cancellation, during the 12-month period starting September 7, 2018, up to 17,704,359 of the common shares.

StorageVault Canada Inc.
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Note 8 - Continued

Contributed surplus:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Opening balance	3,540,210	2,243,239
Stock based compensation	1,901,631	1,534,286
Redemption of stock options and warrants	<u>(223,252)</u>	<u>(237,315)</u>
Ending balance	<u><u>5,218,589</u></u>	<u><u>3,540,210</u></u>

Stock Options and Warrants

The Board of Directors of the Corporation may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants of the Corporation, non-transferable options to purchase common shares provided that: i) the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares; ii) the options are exercisable for a period of up to 10 years from the date of grant; iii) the number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares; and iv) the number of common shares reserved for issuance to all technical consultants, if any, will not exceed 2% of the issued and outstanding shares. The exercise price for purchasing these shares cannot be less than the minimum exercise price as provided by Exchange rules.

The following table summarizes information about stock options outstanding and exercisable as at:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	Weighted Average		Weighted Average	
	<u>Options</u>	<u>Exercise Price</u>	<u>Options</u>	<u>Exercise Price</u>
Opening	11,555,850	\$1.01	11,501,000	\$0.62
Exercised/Expired	(1,018,400)	\$0.73	(2,945,150)	\$0.29
Granted	<u>3,000,000</u>	<u>\$2.52</u>	3,000,000	\$1.78
Closing and Exercisable	<u><u>13,537,450</u></u>	<u><u>\$1.36</u></u>	<u><u>11,555,850</u></u>	<u><u>\$1.01</u></u>

The fair value of options granted in 2018 was estimated on the date of the grant, as determined by using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	0.11%
Risk-Free Interest Rate	2.05%
Expected Life of Options	4 Years
Expected Volatility of the Corporation's Common Shares	30.97%

StorageVault Canada Inc.
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Note 8 – Continued

Stock options exercisable and outstanding are as follows:

Exercise Price	Vesting Date	Expiry Date	December 31, 2018	December 31, 2017
\$ 0.23	May 6, 2009	May 6, 2019	990,000	1,210,000
\$ 0.33	June 19, 2014	June 19, 2024	180,000	220,000
\$ 0.41	April 28, 2015	April 28, 2025	2,122,450	2,390,850
\$ 0.50	Sept 14, 2015	Sept 14, 2025	1,570,000	1,760,000
\$ 1.36	Dec 21, 2016	Dec 21, 2026	2,825,000	2,975,000
\$ 1.78	Mar 16, 2017	Mar 15, 2027	2,850,000	3,000,000
\$ 2.52	May 4, 2018	May 3, 2028	3,000,000	-
Options exercisable and outstanding			13,537,450	11,555,850

Warrants exercisable and outstanding are as follows:

Exercise Price	Expiry Date	December 31, 2018	December 31, 2017
\$ 0.35	Feb 25, 2018	-	16,666
\$ 0.37	Feb 25, 2018	-	2,533,334
Warrants exercisable and outstanding		-	2,550,000

Equity Incentive Plan

Under the Corporation's Equity Incentive Plan passed on May 30, 2018 (the "Plan"), directors, employees and consultants are eligible to receive awards, in the form of Restricted Share Units ("RSU's"), Deferred Share Units ("DSU's") and Named Executive Officer Restricted Share Units ("Neo RSU's"), as and when granted by the Board, in its sole discretion. The maximum number of awards that may be issued under the Plan is 17,545,677. The maximum number of shares that may be reserved for issuance under the Plan, together with any of the Corporation's other share-based compensation arrangements, may not exceed 10% of the issued shares of the Corporation.

The RSU's and DSU's that are granted vest in equal annual amounts over 3 years. The Neo RSU's vest 3 years after the date of grant. RSU's, DSU's and Neo RSU's are entitled to be credited with dividend equivalents in the form of additional RSU's, DSU's and Neo RSU's, respectively.

With certain exceptions, the Plan provides that (i) the maximum number of awards that may be granted to any one participant together with any other share-based compensation arrangements, in any 12 month period, may not exceed 5% of the issued shares, and, in the case of any consultant, may not exceed 2% of the issued shares; and (ii) the total value of all securities that may be issued to any non-employee director under all of the Corporation's security based compensation arrangements may not exceed \$150,000.00 per annum.

There has been no issuance of any Awards under the Plan as at December 31, 2018.

Note 8 – Continued

Dividends

A cash dividend of \$0.00255 per common share was declared on March 20, 2018 and paid to shareholders of record on March 30, 2018.

A cash dividend of \$0.002601 per common share was declared on June 15, 2018 and paid to shareholders of record on June 29, 2018.

A cash dividend of \$0.002601 per common share was declared on September 14, 2018 and paid to shareholders of record on September 28, 2018.

A cash dividend of \$0.002601 per common share was declared on December 14, 2018 and payable to shareholders of record on December 31, 2018.

9. Financial Risk Management and Fair Value

The Corporation is required to disclose certain information concerning its financial instruments. The fair values of the Corporation's cash and short term deposits, accounts receivable and accounts payable and accrued liabilities approximate their carrying amount due to the relatively short periods to maturity of these financial instruments. The fair value of the Corporation's 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.

IFRS establishes a three tier fair value hierarchy to reflect the significance of the inputs used in measuring the fair value of the Corporation's financial instruments. The three levels are:

Level 1 – This level includes assets and liabilities measured at fair market value based on unadjusted quoted prices for identical assets and liabilities in active markets that the Corporation can access on the measurement date.

Level 2 – This level includes measurements based on directly or indirectly observable inputs other than quoted prices included in Level 1. Financial instruments in this category are measured using valuation models or other standard valuation techniques that rely on observable market inputs.

Level 3 – The measurements used in this level rest on inputs that are unobservable, unavailable, or whose observable inputs do not justify the largest part of the fair value instrument.

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 9 – Continued

The fair value of financial liabilities was as follows:

	Fair Value Hierarchy	As at December 31, 2018		As at December 31, 2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities:					
Long term debt and lines of credit	Level 2	702,411,156	686,639,088	563,098,338	561,867,534

Financial instruments may expose the Corporation to a number of financial risks including interest rate risk, credit risk and environmental risk.

- a) Interest rate risk – Interest rate risk arises from changes in market interest rates that may affect the fair value of future cash flows from the Corporation’s financial assets or liabilities. Interest rate risk may be partially mitigated by holding both fixed and floating rate debt, or by staggering the maturities of fixed rate debt. The Corporation is exposed to interest rate risk primarily relating to its long term debt. The Corporation will manage interest rate risk by utilizing fixed interest rates on its mortgages where possible, staggering maturities over a number of years to mitigate exposure to any single year, and by attempting to ensure access to diverse sources of funding. There is interest rate risk associated with variable rate mortgages and lines of credit as interest expense is impacted by changes in the prime rate. The impact on the statement of income (loss) and comprehensive income (loss) if interest rates on variable rate debt had been 1% higher or lower for the year ended December 31, 2018 would be approximately \$1,539,550 (December 31, 2017 - \$4,215,097).
- b) 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 tenant.

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 9 – Continued

The following table sets forth details of accounts receivable and related allowance for doubtful accounts:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<i>Trade Receivables</i>		
Under 60 days aged	\$3,166,196	\$2,835,508
Between 60 and 90 days (past due but not impaired)	545,270	366,639
Over 90 days (not impaired)	705,821	125,111
Over 90 days (impaired)	271,666	295,486
Allowance for doubtful accounts	(250,658)	(298,178)
<i>Non-Trade Receivables</i>		
Over 30 days aged (not impaired)	496,578	587,759
	<u>\$4,934,873</u>	<u>\$3,912,325</u>

Change in the Corporation's allowance for doubtful accounts is as follows:

Balance December 31, 2016	\$120,000
Charges or adjustments during the year	<u>178,178</u>
Balance December 31, 2017	\$298,178
Charges or adjustments during the year	<u>(47,520)</u>
Balance December 31, 2018	<u>\$250,658</u>

The creation and release of the allowance for doubtful accounts has been included in operating costs in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

- c) 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. Maturities of long term financial liabilities are summarized in Note 7.

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 9 – Continued

d) 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 should hazardous materials enter the environment. The presence of hazardous substances could also impair the Corporation’s ability to finance or sell the property, or it might expose the Corporation to civil law suits. To mitigate such risk, the Corporation will procure recent or updated environmental reports for all acquisitions. It also prohibits the storage of hazardous substances as a condition of the rental contract signed by customers.

Unless otherwise noted, it is management’s opinion that the Corporation is not exposed to significant currency risk.

10. Income Tax

	2018	2017
Loss before taxes	(32,216,153)	(24,757,670)
Combined federal and provincial statutory income tax rate	26.75%	26.75%
Income tax recovery calculated at statutory rate	(8,617,821)	(6,622,677)
Non-deductible items	502,554	(43,954)
Change in tax rate and other items	50,409	(1,548,737)
Change in deferred tax assets not recognized	-	(2,689,670)
Income tax expense (recovery)	(8,064,858)	(10,905,038)

Movements in deferred tax assets (liabilities) related to temporary differences during the year are as follows:

	December 31, 2017	Recognized on acquisitions	Recognized in earnings	December 31, 2018
Property, plant and equipment	(57,038,288)	(5,122,846)	2,392,599	(59,768,535)
Goodwill	(360,064)	-	-	(360,064)
Intangible assets	(6,390,995)	(811,393)	2,694,369	(4,508,019)
Long term debt	(600,926)	-	(40,913)	(641,839)
Deferred tax assets not recognized	1,832,915	-	(246,964)	1,585,951
Non-capital loss carry forwards	13,400,730	-	3,265,767	16,666,497
Deferred tax asset (liability)	(49,156,628)	(5,934,239)	8,064,858	(47,026,009)

StorageVault Canada Inc.
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11. Related Party Transactions

During the year ended December 31, 2018, the Corporation paid total management fees of \$nil (December 31, 2017 - \$293,321) to Access Results Management Services Inc. ("ARMS"), a corporation controlled by Steven Scott and Iqbal Khan. On March 31, 2017, the Corporation purchased all management contracts from ARMS and therefore, the management agreement has ceased. Pursuant to a management agreement, ARMS was 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 attained 85% or greater of its annual board-approved budgeted NOI for that fiscal year.

During the year ended December 31, 2018, the Corporation reimbursed operational wages of \$nil (December 31, 2017 - \$1,545,892) and training, travel and related expenses of \$nil (December 31, 2017 - \$16,804) to ARMS. These expenses, reimbursed at cost, were undertaken exclusively for the benefit of the Corporation.

During the year ended December 31, 2018, the Corporation paid loan guarantee fees of \$nil (December 31, 2017 - \$127,500) to Access Self Storage Inc., a large shareholder of the Corporation, related to Steven Scott and Iqbal Khan. The loan guarantee payments ceased in 2017. 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 was compensation for the provision of this guarantee and was paid on a monthly basis at the annual rate of 0.5% and 0.4% of the original mortgage principal balances.

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 Steven Scott and Iqbal Khan who are directors of the Corporation. The Corporation pays a monthly royalty of 3.5% on the gross sales. During the year ended December 31, 2018, the Corporation paid \$237,725 (December 31, 2017 - \$216,710) for royalties and \$920,071 (December 31, 2017 - \$1,535,160) 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 December 31, 2018 was \$22,461 (December 31, 2017 - \$33,808) payable to CPFI.

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>December 31, 2018</u>	<u>December 31, 2017</u>
Wages, management fees, bonuses and directors fees	390,194	129,800
Stock based compensation	1,625,895	1,293,914
	<u>2,016,089</u>	<u>1,423,714</u>

12. Capital Risk Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Corporation defines capital as shareholders' equity excluding contributed surplus, and long term debt. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue new debt, acquire or dispose of assets, and adjust the amount of cash and short term deposits. The Board of Directors does not establish a quantitative return on capital criteria, but rather promotes year over year sustainable growth.

On an ongoing basis, the Corporation reviews and assesses its capital structure. The Corporation determines the appropriate mortgage debt to be placed on properties at the time a particular property is acquired or when an existing mortgage financing matures. Consideration is given to various factors including, but not limited to, interest rates, financing costs, the term of the mortgage and the strength of cash flow arising from the underlying asset. Mortgage debt is usually only secured by the underlying asset. The Corporation monitors its capital using a debt to fair value ratio.

Except for the debt covenants described in Note 7, the Corporation is not subject to any externally imposed capital requirements.

13. Segmented Information

The Corporation operates three reportable business segments. Each segment is a component of the Corporation for which separate discrete financial information is available for evaluation by the chief decision makers of the Corporation.

- Self Storage – involves the customer leasing 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 – this segment involves delivering a portable storage unit to the customer. The customer can opt to keep the portable storage unit at their location or have it moved to another location for further storage.
- Management Division – involves revenues generated from the management of stores owned by third parties.

The Corporation evaluates performance and allocates resources based on earnings before interest, taxes, depreciation, amortization and stock based compensation. Corporate costs are not allocated to the segments and are shown separately below.

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 13 – Continued

For the Year Ended December 31, 2018

	Self Storage	Portable Storage	Management Division	Corporate	Total
Revenue	\$ 88,202,008	\$ 6,464,800	\$ 1,716,791	\$ -	\$ 96,383,599
Operating expenses	26,269,735	4,254,214	-	-	30,523,949
Net operating income	61,932,273	2,210,586	1,716,791	-	65,859,650
Acquisition and integration	-	-	-	2,248,751	2,248,751
Selling, general & admin.	-	-	-	6,192,383	6,192,383
Interest expense	28,875,906	-	-	-	28,875,906
Stock based compensation	-	-	-	1,901,631	1,901,631
Depreciation and amortization	56,755,567	1,953,230	-	148,335	58,857,132
Deferred tax recovery	-	-	-	(8,064,858)	(8,064,858)
Net income (loss)	(23,699,200)	257,356	1,716,791	(2,426,242)	(24,151,295)
Additions:					
Real estate and equipment	187,602,427	6,232,460	-	476,943	194,311,830

For the Year Ended December 31, 2017

	Self Storage	Portable Storage	Management Division	Corporate	Total
Revenue	\$ 54,653,224	\$ 6,017,807	\$ 1,217,483	\$ -	\$ 61,888,514
Operating expenses	17,403,935	3,890,543	-	-	21,294,478
Net operating income	37,249,289	2,127,264	1,217,483	-	40,594,036
Acquisition and integration	-	-	-	5,373,955	5,373,955
Selling, general & admin.	-	-	-	4,038,559	4,038,559
Interest expense	15,300,178	338,979	-	-	15,639,157
Stock based compensation	-	-	-	1,534,286	1,534,286
Depreciation, amortization	36,628,061	1,908,597	-	71,813	38,608,471
Share of loss in joint venture	157,278	-	-	-	157,278
Deferred tax recovery	-	-	-	(10,905,038)	(10,905,038)
Net income (loss)	(14,836,228)	(120,312)	1,217,483	(113,575)	(13,852,632)
Additions:					
Real estate and equipment	493,782,394	887,953	-	115,663	494,786,010

StorageVault Canada Inc.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 13 – Continued

Total Assets					
	Self Storage	Portable Storage	Management Division	Corporate	Total
As at December 31, 2017	\$ 837,350,008	\$ 24,770,062	\$ 19,353,316	\$ 14,022,995	\$ 895,496,381
As at December 31, 2018	\$ 967,246,443	\$ 19,827,440	\$ 17,795,589	\$ 17,921,945	\$ 1,022,791,417

14. Investment in Joint Venture

On February 1, 2018, the Corporation purchased the remaining 50% interest in the JV (Note 4). The investment in the JV prior to the purchase was accounted for using the equity method in accordance with IAS 28.

Financial statements for the JV are as follows:

	January 31, 2018	December 31, 2017
Assets	\$ -	\$ 37,720,440
Liabilities	-	(8,449,831)
Total net assets	-	29,270,609
Proportion of ownership interest held by the Corporation		50%
Carrying amount of investment in joint venture	\$ -	\$ 14,635,305

	January 1 to January 31, 2018	August 1 to December 31, 2017
Revenues	\$ 220,440	\$ 1,123,703
Expenses		
Operating costs	114,905	493,960
Interest	5,086	46,672
Depreciation and amortization	100,449	897,627
Total Expenses	220,440	1,438,259
Income (Loss) for the period	-	(314,556)
Proportion of ownership interest held by the Corporation	50%	50%
Corporation's share of income (loss) for the period	\$ -	\$ (157,278)

15. Commitments and Contingencies

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 2023 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 after that time.

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

Less than one year	\$ 1,235,449
Between one and five years	4,986,119
More than five years	<u>20,028,285</u>
	<u>\$ 26,249,853</u>

During the year ended December 31, 2018, the Corporation recognized as an expense \$1,255,333 (December 31, 2017 - \$1,101,757) in operating lease payments.

Contingency

The Corporation has no legal contingency provisions at either December 31, 2018 or December 31, 2017.

16. Subsequent Events

On February 6, 2019, the Corporation announced the approval by its board of directors to execute a purchase agreement of 38 self storage locations operating under the brand of "Real Storage" for \$275 million (subjected to customary adjustments). This will be an arm's length transaction and the purchase price will be paid with funds on hand, assumption of debt and mortgage financing.

On February 13, 2019, the Corporation announced that, based on strong quarterly and year over year results, that it is increasing its quarterly dividend for Q1 2019 by 0.5%.

On February 20, 2019, the Corporation announced the completion of the purchase of two stores in Ontario for an aggregate purchase price of \$10,460,000.

StorageVault Canada Inc.

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