

# **StorageVault Canada Inc.**

(the “Corporation”)

**Form 51-102F1**

## **Management’s Discussion and Analysis For Three Months Ended March 31, 2019**

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, 2019. This MD&A should be read in conjunction with the March 31, 2019 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 14, 2019.

### **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 2019; 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 2019 and revenue and NOI growth for 2019 may be considered a financial outlook, as defined by applicable securities legislation, contained in this MD&A and the accompanying Letter to Shareholders. 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:

**“AFFO”** means FFO plus acquisition and integration costs. Acquisition and integration costs are one time in nature to the specific assets purchased in the current period or pending and are expensed under IFRS. AFFO is a non-IFRS measure – see Accounting Policies Non-IFRS Measures;

**“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; Existing Self Storage is a non-IFRS measure – see Accounting Policies Non-IFRS Measures;

**“FFO”** means net income (loss) excluding gains or losses from the sale of depreciable real estate, plus depreciation, amortization and goodwill adjustment, 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; New Self Storage is a non-IFRS measure – see Accounting Policies Non-IFRS Measures;

**“NOI”**, means net operating income, calculated as revenue from storage and related services less related property operating costs; NOI is a non-IFRS measure – see Accounting Policies Non-IFRS Measures;

**“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, 2019 to May 14, 2019

**“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, managing and renting self storage and portable storage space to individual and commercial customers.

As of March 31, 2019, SVI owned 107 stores and 4,613 portable storage units across Canada, for a total of 6,147,763 square feet of rentable storage space in 56,473 rental units. The stores operate under the Access Storage, Depotium Mini-Entrepots, Sentinel Storage and Storage For Your Life brands. Our portable storage business operates under the Cubeit and PUPS brands.

In addition to our owned stores, SVI manages 54 stores that are owned by third parties for a management fee, bringing the total number of stores under management to 161. On April 15, 2019, SVI purchased a 38 store portfolio, which increased stores owned and managed to 199.

SVI's strategic objective is to own and manage 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, the last mile storage and distribution, 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 90 million square feet across 3,000 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 51,475 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 and knowledge of the storage industry allows us to identify and take advantage of accretive and strategic acquisition opportunities.

### Pricing and Occupancy

A store's rental rates and level of occupancy are dependent upon factors such as population density and growth, the local economy, pricing, customer service and curb appeal. 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 NOI through revenue, 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 manages storage locations offering both self storage and portable storage for rent on a weekly or monthly basis, for personal and commercial 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 track record of closing transactions, our industry relationships and our storage experience provides SVI 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 a disciplined purchaser, with a focus on Canada's top markets. 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: marketing, 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 our national footprint, offering different but complementary product choices at various price points to our customers.

The most significant evolution in the storage industry 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 1,000,000 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. In 2018, we completed 73,500 square feet of expansion and currently have another 50,000 square feet under construction expected to be completed in 2019.

#### 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

As of the date of this MD & A, we have closed \$318.0 million in acquisitions.

To date, we have been successful in meeting or exceeding our acquisition targets; however, as there is more competition to acquire existing stores, especially from foreign purchasers, we may not be able to 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 2019 resulting from the timing of acquisitions and as we continue to streamline and integrate operations, implement our revenue management systems and continue to control costs on the \$1.3 billion of assets purchased in past 4 years.

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.

### Subsequent Events

The following items have been announced or purchased by the Corporation:

- On April 12, 2019 completed the acquisition of two stores in the Greater Toronto Area, a 4 acre storage lot in London, Ontario and the assets and business of RecordXpress, an information and records management business for an aggregate purchase price of \$32.5 million. The acquisition was a non arm's-length transaction.
- On April 15, 2019 completed the acquisition of Real Storage, a 38 store portfolio located in ON, MB, AB and BC, for \$275 million.
- On April 15, 2019 entered into a \$320 million credit agreement for a 3 year term. This credit facility replaces a \$270 million revolving credit facility and repaid the remaining \$83 million of outstanding indebtedness. In connection with the new credit agreement, the Corporation also entered into a 7 year interest rate swap transaction that will provide a fixed rate on \$300 million of its senior secured debt until April 2026.
- On May 14, 2019 announced that it has entered into two separate agreements to acquire two stores in Ontario and one store in British Columbia from two vendor groups for an aggregate purchase price of \$55 million, with between \$7 million to \$10 million of purchase price to be funded in common shares at the higher of \$2.80 or 10 day VWAP per common share.
- On May 14, 2019 the Corporation approved, based on strong quarterly results, increasing the quarterly dividend for Q2 2019 by 0.5%.

## DESCRIPTION OF OUR OPERATIONS

As at March 31, 2019, the Corporation owned the following self storage and portable storage operations:

| Location               | Acres        | Number of Stores | Units         | Rentable Square Feet |
|------------------------|--------------|------------------|---------------|----------------------|
| British Columbia       | 31.7         | 16               | 8,447         | 779,525              |
| Alberta                | 69.2         | 19               | 11,371        | 1,232,842            |
| Saskatchewan           | 26.3         | 8                | 1,766         | 238,201              |
| Manitoba               | 19.6         | 8                | 3,728         | 364,893              |
| Ontario                | 137.0        | 38               | 17,870        | 2,134,472            |
| Quebec                 | 29.8         | 14               | 7,110         | 674,784              |
| Nova Scotia            | 15.0         | 4                | 1,568         | 157,483              |
| Portable Storage Units |              |                  | 4,613         | 565,563              |
| <b>Total</b>           | <b>328.6</b> | <b>107</b>       | <b>56,473</b> | <b>6,147,763</b>     |

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

### Revenue Management

In today's competitive climate, revenue per square foot is the greatest driver in increasing NOI and creating value. Our management platform has sophisticated software, supported by dedicated personnel, that understands the nuances of each local market. Our 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.

### Professional Management

The management team at SVI has extensive experience in all aspects of the storage industry including:

- management of over 160 storage locations throughout Canada
- acquisition, development and management of over 8 million square feet of storage space
- over 100 years of combined experience in the storage industry by senior management
- delivering results

### Marketing

We implement specific marketing plans for the different localities, 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 to fulfill their last mile storage needs. 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.

**Reservation Centre**

Our management platform includes a Reservation Centre (call center) that provides call management services designed to increase reservations and move-ins, increase productivity at the store level and improve our corporate image through professionalism, consistency of messaging and willingness to resolve issues. Our Reservation Centre agents have worked in the storage business and understand the need to introduce and greet professionally, establish rapport with customers, build trust, ask the right questions, listen, ask for the business and 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 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

For the three months ended March 31, 2019, SVI acquired two stores in Ontario for \$10.5 million. In fiscal 2018, SVI completed \$161.4 million of acquisitions. The comparative results are impacted by the timing of these acquisitions.

### Selected Financial Information

|  | <i>(unaudited)</i>                 |                       |                       |              |
|--|------------------------------------|-----------------------|-----------------------|--------------|
|  | <b>Three Months Ended March 31</b> |                       |                       |              |
|  | <b>2019</b>                        | <b>2018</b>           | <b>Change</b>         |              |
|  |                                    |                       | <b>\$</b>             | <b>%</b>     |
| Storage revenue and related services                 | \$ 25,802,944                      | \$ 20,524,199         | \$ 5,278,745          | 25.7%        |
| Management fees                                      | 419,110                            | 389,263               | 29,847                | 7.7%         |
|  | <b>26,222,054</b>                  | <b>20,913,462</b>     | <b>5,308,592</b>      | <b>25.4%</b> |
| Operating costs                                      | 8,781,076                          | 7,275,209             | 1,505,867             | 20.7%        |
| Net operating income <sup>1</sup>                    | <b>17,440,978</b>                  | <b>13,638,253</b>     | <b>3,802,725</b>      | <b>27.9%</b> |
| Less:  |                                    |                       |                       |              |
| Acquisition and integration costs                    | 2,019,533                          | 530,509               | 1,489,024             | 280.7%       |
| Selling, general and administrative                  | 1,891,315                          | 1,043,853             | 847,462               | 81.2%        |
| Interest   | 8,255,606                          | 6,313,079             | 1,942,527             | 30.8%        |
| Depreciation and amortization                        | 15,630,074                         | 13,544,275            | 2,085,799             | 15.4%        |
|  | <b>27,796,528</b>                  | <b>21,431,716</b>     | <b>6,364,812</b>      | <b>29.7%</b> |
| Net Income (Loss) before taxes                       | <b>(10,355,550)</b>                | <b>(7,793,463)</b>    | <b>(2,562,087)</b>    | <b>32.9%</b> |
| Deferred tax recovery                                | 1,511,723                          | -                     | 1,511,723             | -            |
| Net Income (Loss)                                    | <b>\$ (8,843,827)</b>              | <b>\$ (7,793,463)</b> | <b>\$ (1,050,364)</b> | <b>13.5%</b> |
| Weighted average number of common shares outstanding |                                    |                       |                       |              |
| Basic  | 355,837,180                        | 346,856,945           | 8,980,235             | 2.6%         |
| Diluted  | 355,837,180                        | 346,856,945           | 8,980,235             | 2.6%         |
| Net income (loss) per common share                   |                                    |                       |                       |              |
| Basic  | \$ (0.025)                         | \$ (0.022)            |                       |              |
| Diluted  | \$ (0.025)                         | \$ (0.022)            |                       |              |

<sup>1</sup> Non-IFRS Measure.

### Storage revenue and related services

Revenues increased by \$5.3 million, or 25.7%, for the three months ended March 31, 2019, as compared to the same period in 2018. This increase is attributable to incremental revenue from the stores acquired in the current and prior fiscal years and from organic revenue growth. For additional information, see “Segmented, Existing and New Self Storage and Portable Storage Results.”

### Management fees

The three months ended March 31, 2019 results were up 7.7% compared to the same prior year period. The increase in management fees is a direct result of increased revenues from the stores managed by the Corporation.

### Operating costs

Operating costs for the three months ended March 31, 2019 were \$8.8 million (March 31, 2018 - \$7.3 million), an increase of 20.7%. The increase in property operating cost relates to the stores acquired in 2018 and was slightly muted by the adoption of IFRS 16 - Leases for leasing costs.

The Corporation is the lessee in various building and land leases that were previously accounted for as operating leases. Effective January 1, 2019 (date of initial application), the Corporation adopted IFRS 16 – Leases. The Corporation has elected to apply the modified retrospective approach where the Corporation will not restate comparative figures. For the three months ended March 31, 2018, leasing expense included in operating costs equaled \$271,114. If removed from the prior year operating costs, this would have resulted in operating costs increasing by 25.4%, instead of 20.7%, resulting primarily from stores acquired in 2018.

### Net income (loss)

Our net loss of \$8.8 million is a mainly a result of \$15.6 million of depreciation and amortization, which was offset by a deferred tax recovery of \$1.5 million, both non-cash items.

### Net operating income

For the three months ended March 31, 2019, the Corporation had net operating income (NOI), a non-IFRS measure, of \$17.4 million (March 31, 2018 - \$13.6 million), an increase of 27.9%. The increase was primarily due to the NOI from storage assets purchased throughout fiscal 2018, streamlining and integration of operations, increased occupancy, increased rates through our revenue management systems, management fee revenue growth and control 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 \$373.0 million of acquisitions to date in fiscal 2019, following closing \$161.4 million of acquisitions in fiscal 2018.

### Selling, general and administrative

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

### Interest

Interest expense increased as the total amount of debt outstanding increased with current and prior year acquisitions. As at March 31, 2019, our total debt was \$713.1 million compared to \$596.8 million at March 31, 2018.

### Depreciation and amortization

The increase in depreciation and amortization expense is primarily due to depreciating the additional assets acquired throughout fiscal 2018.

### Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)

FFO and AFFO are non-IFRS measures. It allows management and investors to evaluate the financial results of an entity without taking into consideration the impact of non-cash items and non-recurring acquisition and integrations costs 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 and non-recurring capital items include stock based compensation costs, deferred income tax expenses (recoveries) and acquisition and integration costs, if any. Acquisition and integration costs, adjusted for in our AFFO, are one time in nature to the specific assets purchased or pending. While the specific acquisition and integration costs may vary from period to period, given that the Corporation is planning to continue to complete acquisitions as part of its growth strategy, these costs will continue to be included as an adjustment in determining AFFO (i.e. the amount of the costs are "non-recurring" but the actual adjustment for these type of costs is "recurring").

As a result of acquisition and integration costs incurred (\$2.0 million in Q1 2019 versus \$0.5 million in Q1 2018) for the \$373 million of acquisitions closed or announced, including the \$275 million 38 store portfolio closed on April 15, 2019, in fiscal 2019 to date, FFO for the three months ended March 31, 2019 was \$5.3 million versus \$5.8 million for the same period in 2018, a change of 8.3%.

AFFO for the three months ended March 31, 2019 was \$7.3 million versus \$6.3 million for the same period in 2018, a 16.1% increase. These increases are mainly the result of contributions from the assets purchased in fiscal 2018.

Compared to Q4 2018, the FFO and AFFO in Q1 2019 is lower due to seasonality of the storage industry and higher corporate costs in anticipation of fiscal 2019 acquisitions.

The FFO and AFFO for the three months ended March 31, 2019 and 2018 are:

|                                    | <i>(unaudited)</i>          |                     |                     |              |  |
|------------------------------------|-----------------------------|---------------------|---------------------|--------------|--|
|                                    | Three Months Ended March 31 |                     |                     |              |  |
|                                    | <u>2019</u>                 | <u>2018</u>         | <u>Change</u>       |              |  |
|                                    |                             |                     | <u>\$</u>           | <u>%</u>     |  |
| Net Income (loss)                  | \$ (8,843,827)              | \$ (7,793,463)      | \$ (1,050,364)      | 13.5%        |  |
| Adjustments:                       |                             |                     |                     |              |  |
| Deferred tax recovery              | (1,511,723)                 | -                   | (1,511,723)         | -            |  |
| Depreciation and amortization      | 15,630,074                  | 13,544,275          | 2,085,799           | 15.4%        |  |
|                                    | <u>14,118,351</u>           | <u>13,544,275</u>   | <u>574,076</u>      | <u>4.2%</u>  |  |
| FFO <sup>1</sup>                   | \$ 5,274,524                | \$ 5,750,812        | \$ (476,288)        | -8.3%        |  |
| Adjustments:                       |                             |                     |                     |              |  |
| Acquisition and integrations costs | 2,019,533                   | 530,509             | 1,489,024           | 280.7%       |  |
| AFFO <sup>1</sup>                  | <u>\$ 7,294,057</u>         | <u>\$ 6,281,321</u> | <u>\$ 1,012,736</u> | <u>16.1%</u> |  |

<sup>1</sup> Non-IFRS Measure.

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

The Corporation operates three reportable business segments - self storage, portable storage and management fees. Self storage involves customers renting space at the Corporation's property for short or long term storage. 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. Management fees are revenues generated from the management of stores owned by third parties.

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

|  | (unaudited)                 |               |               |        |
|--|-----------------------------|---------------|---------------|--------|
|  | Three Months Ended March 31 |               |               |        |
|  | <u>2019</u>                 | <u>2018</u>   | <u>Change</u> |        |
|  |                             |               | \$            | %      |
| <b>Revenue</b>                           |                             |               |               |        |
| Existing Self Storage <sup>1</sup>       | \$ 20,213,986               | \$ 18,829,470 | \$ 1,384,516  | 7.4%   |
| New Self Storage <sup>1</sup>            | 4,150,765                   | 557,214       | 3,593,551     | 644.9% |
| Total Self Storage                       | <u>24,364,751</u>           | 19,386,684    | 4,978,067     | 25.7%  |
| Portable Storage                         | 1,438,193                   | 1,137,515     | 300,678       | 26.4%  |
| Management fees                          | 419,110                     | 389,263       | 29,847        | 7.7%   |
| Combined                                 | <u>26,222,054</u>           | 20,913,462    | 5,308,592     | 25.4%  |
| <b>Operating Costs</b>                   |                             |               |               |        |
| Existing Self Storage                    | 6,378,959                   | 6,026,688     | 352,271       | 5.8%   |
| Impact of IFRS 16 on Costs <sup>2</sup>  | -                           | 271,114       | (271,114)     | -      |
| New Self Storage                         | 1,351,024                   | 217,367       | 1,133,657     | 521.5% |
| Total Self Storage                       | <u>7,729,983</u>            | 6,515,169     | 1,214,814     | 18.6%  |
| Portable Storage                         | 1,051,093                   | 760,040       | 291,053       | 38.3%  |
| Combined                                 | <u>8,781,076</u>            | 7,275,209     | 1,505,867     | 20.7%  |
| <b>Net Operating Income <sup>1</sup></b> |                             |               |               |        |
| Existing Self Storage                    | 13,835,027                  | 12,802,782    | 1,032,245     | 8.1%   |
| Impact of IFRS 16 on NOI <sup>2</sup>    | -                           | (271,114)     | 271,114       | -      |
| New Self Storage                         | 2,799,741                   | 339,847       | 2,459,894     | 723.8% |
| Total Self Storage                       | <u>16,634,768</u>           | 12,871,515    | 3,763,253     | 29.2%  |
| Portable Storage                         | 387,100                     | 377,475       | 9,625         | 2.5%   |
| Management fees                          | 419,110                     | 389,263       | 29,847        | 7.7%   |
| Combined                                 | <u>\$ 17,440,978</u>        | \$ 13,638,253 | \$ 3,802,725  | 27.9%  |

<sup>1</sup> Non -IFRS Measure.

<sup>2</sup> For comparative purposes, due to the Corporation applying IFRS 16 - Leases on a modified retrospective basis where the Corporation will not restate comparative figures, the Corporation has separated out the \$271,114 leasing expense incurred in the prior year.

#### *Existing Self Storage*

For the three months ended March 31, 2019, Revenue and NOI increased by 7.4% and 8.1%, respectively, over the same prior year period. The revenue increase was substantially driven from continued execution of our revenue management program, increased occupancy and controlling costs through operational efficiencies.

#### *New Self Storage*

Increase is a result of acquiring 15 stores throughout 2018 resulting in NOI growth quarter over quarter as we commenced reporting results.

### *Portable Storage*

Increase in occupancy resulted in revenue and NOI growth over the same prior year period.

### 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 2019 ('000) |                  | Fiscal 2018 ('000) |                 |                 |                 |                 |
|------------------------|--------------------|------------------|--------------------|-----------------|-----------------|-----------------|-----------------|
|                        | Q1                 | Total            | Q4                 | Q3              | Q2              | Q1              | Total           |
| <b>NOI<sup>1</sup></b> |                    |                  |                    |                 |                 |                 |                 |
| Existing Self Storage  | \$13,835           | \$ 13,835        | \$14,747           | \$15,193        | \$14,378        | \$12,532        | \$56,850        |
| New Self Storage       | 2,800              | 2,800            | 2,629              | 1,608           | 505             | 340             | 5,082           |
| Total Self Storage     | 16,635             | 16,635           | 17,376             | 16,802          | 14,883          | 12,872          | 61,932          |
| Portable Storage       | 387                | 387              | 446                | 760             | 627             | 377             | 2,211           |
| Management fees        | 419                | 419              | 468                | 442             | 417             | 389             | 1,716           |
|                        | <u>\$17,441</u>    | <u>\$ 17,441</u> | <u>\$18,290</u>    | <u>\$18,004</u> | <u>\$15,927</u> | <u>\$13,638</u> | <u>\$65,859</u> |

<sup>1</sup> Non-IFRS Measure

### *Existing Self Storage*

The increase in Q1 2019 over Q1 2018 was substantially driven from continued execution of our revenue management program, occupancy increase and controlling costs through operational efficiencies.

### *New Self Storage*

SVI acquired 15 stores in 2018. These additions have resulted in NOI growth quarter over quarter as we commenced reporting results.

### *Portable Storage*

Increase in occupancy resulted in revenue and NOI growth over the same prior year period. 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, when compared to Q2 and Q3.

## 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          |
|-----------------------|---------------------|-----------------------|-------------------------------|---|-----------------|-------------------|--------------------|
| 2019- Q1              | \$26,222,054        | (\$8,843,827)         | (\$0.025)                     | (\$0.025)                                   | \$1,044,914,091 | \$794,584,280     | \$930,288          |
| <b>Total 2019</b>     | <b>\$26,222,054</b> | <b>(\$8,843,827)</b>  | <b>N/A</b>                    | <b>N/A</b>                                  | <b>N/A</b>      | <b>N/A</b>        | <b>\$930,288</b>   |
| 2018- Q4              | \$26,562,429        | (\$843,810)           | (\$0.002)                     | (\$0.002)                                   | \$1,022,791,417 | \$761,864,860     | \$925,235          |
| 2018- Q3              | \$25,733,852        | (\$6,355,654)         | (\$0.018)                     | (\$0.018)                                   | \$990,262,630   | \$731,939,098     | \$920,981          |
| 2018- Q2              | \$23,173,856        | (\$9,158,368)         | (\$0.026)                     | (\$0.026)                                   | \$959,256,102   | \$694,025,713     | \$920,562          |
| 2018- Q1              | \$20,913,462        | (\$7,793,463)         | (\$0.022)                     | (\$0.022)                                   | \$922,656,903   | \$661,214,665     | \$889,786          |
| <b>Total 2018</b>     | <b>\$96,383,599</b> | <b>(\$24,151,295)</b> | <b>N/A</b>                    | <b>N/A</b>                                  | <b>N/A</b>      | <b>N/A</b>        | <b>\$3,656,564</b> |
| 2017- Q4              | \$20,744,110        | \$15,343,505          | \$0.044                       | \$0.044                                     | \$895,496,381   | \$627,421,264     | \$880,328          |
| 2017- Q3 <sup>1</sup> | \$18,453,960        | (\$15,402,377)        | (\$0.046)                     | (\$0.046)                                   | \$839,525,204   | \$585,777,091     | \$879,376          |
| 2017- Q2              | \$12,557,306        | (\$2,995,895)         | (\$0.010)                     | (\$0.010)                                   | \$400,216,946   | \$237,005,503     | \$765,016          |
| 2017- Q1 <sup>1</sup> | \$10,133,138        | (\$10,797,865)        | (\$0.037)                     | (\$0.037)                                   | \$404,743,767   | \$238,025,850     | \$749,946          |
| <b>Total 2017</b>     | <b>\$61,888,514</b> | <b>(\$13,852,632)</b> | <b>N/A</b>                    | <b>N/A</b>                                  | <b>N/A</b>      | <b>N/A</b>        | <b>\$3,274,666</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>N/A</b>                    | <b>N/A</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>N/A</b>                    | <b>N/A</b>                                  | <b>N/A</b>      | <b>N/A</b>        | <b>-</b>           |

### Note 1:

The Corporation reversed \$12,420,000 of goodwill impairment taken in Q1 2017 and Q3 2017.

The Q1 2017 goodwill impairment that was recorded was \$5,361,176, and as a result, Q1 2017 previously reported net loss of \$10,797,865, would have been \$5,436,689 without such goodwill impairment. The Q3 2017 goodwill impairment that was recorded was \$7,058,823 million, and as a result, Q3 2017 reported net loss of \$15,402,377 would have been \$8,343,553 without such goodwill impairment.

The previously reported Total Assets for Q1 2017 of \$404,743,767 would have been \$410,104,943. The previously reported Total Assets for Q2 2017 of \$400,216,946 would have been \$405,578,122. The previously reported Total Assets for Q3 2017 of \$839,525,204 would have been \$851,945,204.

## WORKING CAPITAL, LONG TERM DEBT AND SHARE CAPITAL

### Working Capital

Cash provided by operating activities was \$5.6 million for the three months ended March 31, 2019, compared to \$6.1 million for the same prior year period. The decrease is a result of acquisition and integration costs incurred (\$2.0 million in Q1 2019 versus \$0.5 million in Q1 2018) for the \$373 million of acquisitions closed or announced in fiscal 2019 to date. These costs offset increases in operational results from increased rates through our revenue management systems, increased occupancy, controlling costs and continued streamlining and integration of operations.

As at March 31, 2019, to fund acquisitions, the Corporation had \$20.5 million of cash compared to \$19.7 million at December 31, 2018. The Corporation expects its cash flow from operations to continue to increase as the full benefit of the stores purchased in fiscal 2018 and 2019 are realized. In addition, the Corporation will borrow against low levered assets to fund acquisitions and its expansion plans.

### Long Term Debt and Lines of Credit

As at March 31, 2019 and December 31, 2018, the Corporation held the following debt:

|   | March 31, 2019                             |                  |                    | December 31, 2018                              |                  |                    |
|---|--|------------------|--------------------|--|------------------|--------------------|
|   | Rate Range                                 | Weighted Average | Balance            | Rate Range                                     | Weighted Average | Balance            |
| <b><u>Mortgages</u></b>   |  |                  |                    |  |                  |                    |
| Fixed/Variable  | 3.18% to 5.20%                             | 4.25%            | 573,276,590        | 3.18% to 5.20%                                 | 4.24%            | 555,183,118        |
|   | <i>Maturity: July 2019 to January 2029</i> |                  |                    | <i>Maturity: January 2019 to December 2028</i> |                  |                    |
| Deferred financing costs net of accretion of \$2,832,138 (Dec 31, 2018 - \$2,514,319) |  |                  | (2,417,778)        |  |                  | (2,505,296)        |
|   |  |                  | <u>570,858,812</u> |  |                  | <u>552,677,822</u> |
| <b><u>Lines of Credit</u></b>   |  |                  |                    |  |                  |                    |
| Variable Rate   | Prime plus 1.25% or BA plus 2.35%          | 4.47%            | 142,233,334        | Prime plus 1.00% or BA plus 2.35%              | 4.47%            | 149,733,334        |
|   | <i>Maturity: July 2019 to August 2020</i>  |                  |                    | <i>Maturity: July 2019 to April 2021</i>       |                  |                    |
|   |  |                  | <u>713,092,146</u> |  |                  | <u>702,411,156</u> |

The bank prime rate at March 31, 2019 was 3.95% (December 31, 2018 - 3.95%). The weighted average cost of debt at March 31, 2019 is 4.29% (December 31, 2018 - 4.29%). The Corporation seeks to reduce its variable interest rate exposure by entering into fixed interest rate term debt. On April 15, 2019, the Corporation entered into a new 3 year term \$320 million credit agreement that paid down the existing lines of credit by \$83 million and fixed the interest rate for a period of 7 years on \$300 million.

The weighted years to maturity, excluding lines of credit, at March 31, 2019 is 5.94 years (December 31, 2018 – 6.18 years).

Mortgages are secured by a first mortgage charge on the real estate and equipment of the Corporation, general security agreements, assignment of rents and leases and assignments of insurance coverages. The

Corporation must maintain certain financial ratios to comply with the facilities. These covenants include debt service coverage ratios, a tangible net worth ratio, and a loan to value ratio. As of March 31, 2019 and December 31, 2018, 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 into income of these costs.

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

|            |    |  |
|------------|----|--|
| Year 1     | \$ | 159,058,966 (includes \$142.2 million lines of credit) |
| Year 2     | \$ | 99,819,890   |
| Year 3     | \$ | 107,743,139  |
| Year 4     | \$ | 67,894,293   |
| Year 5     | \$ | 33,987,959   |
| Thereafter | \$ | 247,005,677  |

Of the repayments shown in Year 1, \$12.6 million are required under our amortizing term debt mortgages, \$4.2 million relates to loans due in the upcoming twelve months that are expected to be refinanced and \$142.2 million relates to our lines of credit. Our lines of credit are covenant based (debt service coverage ratios, tangible net worth ratios, and loan to value ratios) and do not require repayment as long as the covenants are met. As of March 31, 2019 and December 31, 2018, the Corporation is in compliance with all covenants.

Given that our lines of credit are short term in nature, the Corporation will term out assets supporting the lines when deemed appropriate, which includes determination that the Corporation has been able to implement its operating systems to increase the value of the assets and to ensure that the Corporation has an appropriate mix of assets under our lines of credit.

The Corporation's detailed debt maturity profile as at March 31, 2019 is:

| Year of debt maturity | Mortgages Payable | Weighted Average Interest Rate | Lines of Credit | Weighted Average Interest Rate | Total Debt  | Weighted Average Interest Rate |
|-----------------------|-------------------|--------------------------------|-----------------|--------------------------------|-------------|--------------------------------|
| 2020                  | 4,183,910         | 5.20%                          | 136,750,000     | 4.41%                          | 140,933,910 | 4.43%                          |
| 2021                  | 90,446,792        | 4.17%                          | 5,483,334       | 5.20%                          | 95,930,126  | 4.23%                          |
| 2022                  | 100,939,201       | 4.37%                          | -               | -                              | 100,939,201 | 4.37%                          |
| 2023                  | 64,414,247        | 4.06%                          | -               | -                              | 64,414,247  | 4.06%                          |
| 2024                  | 28,603,277        | 4.74%                          | -               | -                              | 28,603,277  | 4.74%                          |
| Thereafter            | 284,689,163       | 4.21%                          | -               | -                              | 284,689,163 | 4.21%                          |
|                       | 573,276,590       | 4.25%                          | 142,233,334     | 4.47%                          | 715,509,924 | 4.29%                          |
|                       |                   |                                |                 |                                | (2,417,778) |                                |
|                       |                   |                                |                 |                                | 713,092,146 |                                |

## Share Capital

The common shares issued are:

|                              | <u>Number of Shares</u>   | <u>Amount</u>                |
|------------------------------|---------------------------|------------------------------|
| Balance, December 31, 2017   | 345,226,934               | \$ 319,571,781               |
| Issued on asset acquisitions | 6,313,955                 | 15,661,727                   |
| Dividend reinvestment plan   | 613,694                   | 1,497,892                    |
| Share option redemption      | 3,568,391                 | 1,906,263                    |
| Share issuance costs         | -                         | (84,962)                     |
| Balance, December 31, 2018   | <u>355,722,974</u>        | <u>\$ 338,552,701</u>        |
| Dividend reinvestment plan   | 131,554                   | 384,491                      |
| Balance, March 31, 2019      | <u><u>355,854,528</u></u> | <u><u>\$ 338,937,192</u></u> |

### 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 September 7, 2018, of up to 17,704,359 of the common shares.

### Stock Options

A total of 13,537,450 options were outstanding as at March 31, 2019 (December 31, 2018 – 13,537,450). Of the outstanding amount, 13,537,450 options were exercisable (December 31, 2018 – 13,537,450). The details are as follows:

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

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.

### *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 March 31, 2019.

## CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

### Lease Liabilities

The Corporation leases buildings and lands in Winnipeg, MB, Kamloops, BC and Montreal, QC. 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, which are expected to be exercised by the Corporation.

The lease liabilities are measured at the present value of the lease payments that are not paid at the balance sheet date. Lease payments are apportioned between interest expense and a reduction of the lease liability using the Corporation's incremental borrowing rate to achieve a constant rate of interest on the remaining balances of the liability.

For the three months ended March 31, 2019, the Corporation recognized \$209,578 (March 31, 2018 - \$nil) in interest expense related its lease liabilities. As a result of the adoption of IFRS 16, the Corporation recognized \$nil (March 31, 2018 - \$271,114) in operating lease payments.

### Contingency

The Corporation has no legal contingency provisions at either March 31, 2019 or December 31, 2018.

### 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.

## RELATED PARTY TRANSACTIONS

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 three months ended March 31, 2019, the Corporation paid \$67,089 (March 31, 2018 - \$45,134) for royalties and \$nil (March 31, 2018 - \$893,110) 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, 2019 was \$17,155 (March 31, 2018 - \$32,560) 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>March 31, 2019</u> | <u>March 31, 2018</u> |
|--|-----------------------|-----------------------|
| Wages, management fees, bonuses and directors fees | 141,171               | 32,450                |

## 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 related party property acquisitions, 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 December 31, 2018 annual audited consolidated financial statements. Except for the adoption of IFRS 16 – Leases, there has been no change in significant accounting policies from the Corporation's audited consolidated annual financial statements from December 31, 2018. 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, amortization and goodwill adjustment, 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. Adjusted Funds from Operations ("AFFO") – AFFO is defined as FFO plus acquisition and integration costs. Acquisition and integration costs are one time in nature to the specific assets purchased in the current period or pending and are expensed under IFRS.
- iv. 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. "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, 2018 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 and fiscal year ended December 31, 2018, 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 and fiscal year ended December 31, 2018.

#### **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 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, 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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