# PUBLIC STORAGE CANADIAN PROPERTIES

**(A Limited Partnership Governed by the *Limited Partnerships Act* of Ontario)**

# QUARTERLY REPORT TO UNITHOLDERS

# MARCH 31, 2010

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# Properties

The following table sets forth information about the properties owned by Public Storage Canadian Properties as at March 31, 2010:

| Location | Year Built | Land Area (Acres) | Net Rentable Square Feet | Storage Units (6) |
|---|---|---|---|---|
| **Alberta** | | | | |
| 90 Country Hills Landing NW, Calgary | 2004 (1) | 5.4 | 74,000 | 770 |
| | | 5.4 | 74,000 | 770 |
| **British Columbia** | | | | |
| 2351 United Boulevard, Coquitlam (3) | 1981 (2) | 4.7 | 65,000 | 730 (7) |
| 17555 – 64 Avenue, Surrey | 2005 (1) | 2.1 | 57,000 | 700 |
| 7401 King George Boulevard, Surrey | 1982 (1) | 4.1 | 80,000 | 640 |
| 8654 120th Street, Surrey | 1980 (1) | 3.2 | 60,000 | 520 |
| 111 Commercial Drive, Vancouver | 2006 (1) | 1.3 | 74,000 | 970 |
| | | 15.4 | 336,000 | 3,560 |
| **Ontario** | | | | |
| 25 Advance Boulevard, Brampton | 1979 (1) | 4.1 | 63,000 | 510 |
| 2 Mendota Road, Etobicoke | 1979 (1) | 1.9 | 29,000 | 270 |
| 36 Queen Elizabeth Boulevard, Etobicoke | 1986 (1) | 2.5 | 66,000 | 690 (7) |
| 30 Burford Road, Hamilton | 1979 (1) | 5.0 | 95,000 | 800 (7) |
| 2330 South Sheridan Way, Mississauga | 1979 (1) | 3.7 | 58,000 | 500 |
| 5010 Timberlea Boulevard, Mississauga | 1986 (1) | 4.3 | 82,000 | 740 |
| 921 Queensway East, Mississauga | 1981 (1) | 6.3 | 105,000 | 830 |
| 1001 Arrow Road, North York | 1980 (1) | 6.0 | 117,000 | 1,010 (7) |
| 1333 North Service Road, Oakville | 2009 (2) | 10.3 | 86,000 | 770 |
| 3545 St. Joseph Boulevard, Orleans (4) | | 10.6 | | |
| 2 Greensboro Drive, Rexdale | 1980 (1) | 4.9 | 141,000 | 1,490 (7) |
| 9355 Leslie Street, Richmond Hill (4) | | 3.3 | | |
| 91 Dynamic Drive, Scarborough | 1980 (1) | 4.7 | 80,000 | 650 (7) |
| 730 Birchmount Road, Scarborough | 1987 (1) | 3.4 | 73,000 | 700 |
| 4120 Finch Avenue East, Scarborough | 1980 (1) | 4.2 | 58,000 | 450 (7) |
| 28 Estate Drive, Scarborough | 2007 (2) | 5.0 | 86,000 | 940 |
| 17 Hobson Avenue, Toronto | 1982 (1) | 2.6 | 63,000 | 620 |
| 1310 Dundas Street, Woodstock | 2006 (2) | 10.2 | 55,000 | 590 (7) |
| | | 93.0 | 1,257,000 | 11,560 |
| **Québec** | | | | |
| 2801 Montee St-Remi, Dorval | 2009 (2) | 2.1 | 88,000 | 880 |
| 6701 Boulevard Newman, LaSalle | 2009 (2) | 2.6 | 85,000 | 880 |
| 955 Autoroute Chomeday, Laval (5) | 2007 (2) | 3.4 | 84,000 | 940 |
| 3015 Boulevard Tessier, Laval | 2008 (2) | 1.8 | 84,000 | 780 |
| 9445 Jean Pratt Street, Montréal | 2006 (1) | 1.7 | 92,000 | 1,020 |
| 5605 Côte-de-Liesse, St. Laurent | 1949 - 2001 (1) | 8.5 | 216,000 | 2,300 |
| | | 20.1 | 649,000 | 6,800 |
| **Total** | | 133.9 | 2,316,000 | 22,690 |

(1) See “Same Store” Facilities on page 10.
(2) See “Other Facilities” on page 12.
(3) See “Contingency” on page 17.
(4) See “Property Acquisitions and Developments” on page 15.
(5) Subject to a 40 year land lease agreement.
(6) The number of storage units may change due to the addition or deletion of internal partitions to satisfy space size demand.
(7) The number of storage units includes outdoor spaces for vehicle storage at selected locations: Coquitlam (150), Etobicoke (20), Hamilton (10), North York (80), Rexdale (110), Dynamic (40), Finch (40) and Woodstock (100).

# Management’s Discussion and Analysis
# of Financial Conditions and Results of Operations

**Dated May 5, 2010**

**Forward-Looking Statements**

This discussion of the financial condition and results of operations of Public Storage Canadian Properties (“PSCP” or the “Partnership”) contains forward-looking statements regarding, among other things, the Partnership’s beliefs, plans, objectives, strategies, estimates, intentions and expectations, including as they relate to its operating and financial results, capital expenditures, distribution policy and financing strategies and PSCP’s ability to execute on its operating, development and financing strategies. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “believe”, “potential”, “expect”, “estimate”, “would”, “could”, “intend”, “will”, “if” and “may”. These forward-looking statements are based on a number of assumptions which may prove to be incorrect, including management’s current expectations, estimates and assumptions about the markets that the Partnership operates in, the Canadian economic environment, interest rates, exchange rates, the Partnership’s ability to attract and retain customers and to manage its self-storage assets and operating costs, assumptions respecting the availability and cost of construction materials and labour, there being limited costs, difficulties or delays related to obtaining construction and operating permits or as a result of adverse weather conditions, delays in opening of new facilities and expectations respecting the useful life of assets of the Partnership. Forward-looking statements involve known and unknown risks, uncertainties and other facts which may cause actual results or developments to differ materially from those contemplated or implied by these statements depending on, among others, such factors as:

- the accuracy of management’s assumptions;
- the failure of the Partnership to manage acquisitions;
- delays in “lease-up” of newly developed self-storage facilities of the Partnership;
- losses of key personnel may affect the Partnership’s ability to operate effectively;
- the leverage of the Partnership;
- restrictive covenants in the Partnership’s $75 million credit arrangement with a syndicate of commercial banks (the “Credit Facility”) and the Partnership Agreement (as defined below) limit the Partnership’s flexibility in operating the business;
- the ability to refinance the Credit Facility upon maturity on comparable terms or at all;
- the Partnership may incur significant environmental costs and liabilities;
- litigation risks;
- property taxes can increase and cause a decline in yields on investments;
- competition has affected the occupancy levels, rental rates and operating expenses of some of the Partnership’s facilities;
- the value of the Partnership’s properties may be reduced by the general risks of rental real estate ownership including lack of demand for rental spaces or units in a locale, changes in general economic or local conditions, changes in supply of or demand for similar or competing facilities in an area, changes in environmental, real estate, zoning or tax laws, and changes in interest rates;
- rental real estate development (including the development of mini-warehouse facilities) is subject to timing, budgeting and other risks including construction delays or cost overruns that may increase project costs;
- the Partnership does not own the trade-mark “Public Storage”;
- the Partnership’s properties compete with other properties managed by the General Partner (as defined below) of the Partnership which operate under the trade-mark “Public Storage”;
- there may be situations in which conflicts of interest may arise between the General Partner of the Partnership and its respective officers and directors in relation to the interests of the Partnership;
- the Hughes Family (as defined below) controls the Partnership;
- implications of tax legislation applicable to specified investment flow-through trusts (“SIFTs”) or partnerships (see “Tax Treatment and Notices” on page 17);

- risk of expropriation or condemnation of facilities including receipt of estimated proceeds in connection with any expropriation; and
- new provincial sales tax harmonization requirements (see "Same Store" Facilities on page 10).

This list may not contain all factors that could affect any of the Partnership's forward-looking statements. Investors and others should carefully consider these and other factors and not place undue reliance on these forward-looking statements. Further information regarding these and other factors is included in the Partnership's public filings with Canadian securities regulatory authorities including the section titled "Risk Factors" in the Partnership's Annual Information Form. The forward-looking statements contained in this discussion of the consolidated financial condition and results of operations of the Partnership represent the Partnership's views only as at the date hereof. While the Partnership anticipates that subsequent events and developments may cause the Partnership's views to change, the Partnership does not undertake to update any forward-looking statements except as required by law.

## General

Public Storage Canadian Properties is a publicly-held limited partnership formed under the *Limited Partnerships Act* (Ontario). The Partnership owns, and derives substantially all of its income from, 28 self-storage facilities, of which 16 are located in Ontario, 5 are located in British Columbia, 6 are located in Québec and 1 is located in Alberta. In addition, the Partnership owns parcels of land in Orleans, Ontario and Richmond Hill, Ontario, for development into new self-storage facilities.

The general partner of the Partnership is Canadian Mini-Warehouse Properties Company ("CMP" or the "General Partner"), a privately-held company. All of the shares of CMP are beneficially owned by the family of B. Wayne Hughes (the "Hughes Family"). CMP and its affiliates own 5,129,717 units of the Partnership ("Units") or approximately 56.7% of the outstanding Units as at March 31, 2010.

The 28 self-storage facilities owned by the Partnership are operated under the trade name "Public Storage" and are managed by CMP pursuant to a separate property management agreement. CMP also manages an additional 24 self-storage facilities in Canada operated under the trade name "Public Storage" for the Hughes Family for a combined total of 52 self-storage facilities aggregating 4.0 million net rentable square feet.

## Outstanding Securities

9,040,181 Units were outstanding as at May 5, 2010.

## Business Overview

The Partnership acquires, develops and owns self-storage facilities. Self-storage facilities are designed to offer accessible storage space for personal and business use at a relatively low cost. A user rents a fully-enclosed storage unit which is for the user's exclusive use and to which only the user has access, on an unrestricted basis during business hours. Some self-storage facilities also include rentable uncovered parking areas for vehicle storage. Leases for storage units may be on a long-term or short-term basis, although typically spaces are rented on a month-to-month basis. Rental rates vary according to the location of the property and the size of the space. Self-storage units are used by individuals and large and small businesses. Individuals usually employ the space for storage of, among other things, furniture, household appliances, personal belongings, motor vehicles, boats, campers, motorcycles and other household goods. Businesses usually employ the space for storage of excess inventory, business records, seasonal goods, equipment and fixtures. On-site operation of a self-storage facility is the responsibility of a property manager, who may be a resident on the facility he or she is responsible for. District managers are employed to supervise the work of the property managers.

The Partnership experienced a slowdown in the business due to economic uncertainty and financial market volatility during the fourth quarter of 2008. The demand for storage space declined as individuals and businesses modified their spending habits. The Partnership revised its pricing, marketing and discounting strategy to maintain and increase occupancy levels. These strategies had a negative impact on the Partnership's operations and growth initiatives in 2009, but positioned the Partnership for a healthy recovery as economic conditions improve.

## Growth Initiatives

The Partnership believes that external growth is necessary to achieve economies of scale, compete with newer facilities with greater amenities and provide greater diversification of its portfolio across Canada.

The Partnership initially owned 16 mature self-storage facilities located in the provinces of Ontario and British Columbia. The first of these properties opened in August 1979, and the last of these initial properties to commence operations opened in January 1987. In November 2000, the holders of Units (the “Unitholders”) authorized an amendment to the limited partnership agreement of the Partnership (the “Partnership Agreement”) to permit the Partnership to expand its portfolio of self-storage facilities by taking advantage of strategic acquisition and development opportunities as they arise (see “Other” Facilities on page 12). Since the amendment to the Partnership Agreement, the Partnership has sought to expand its portfolio of self-storage facilities and its portfolio now includes properties located in Alberta and Québec. Over the past several years, the Partnership has sought to construct brand new self-storage facilities in highly desirable locations with state of the art amenities (including climate controlled buildings with individually alarmed units). The Partnership believes that its new developments will generate improved operating results in the long-term. Generally, the construction period takes up to 18 months, followed by a lease-up period. During the “lease-up” period, the developments are dilutive to earnings. This dilution is created by the negative spread between the cost of capital related to the cost of the property and the net operating income or loss generated by such property.

The Partnership continues to develop additional self-storage facilities in locations where the Partnership has previously acquired the land, but has delayed or may delay the construction and opening of certain properties under development or held for development until economic conditions improve. The Partnership may continue to acquire additional existing self-storage facilities or properties for development.

The Partnership also seeks to achieve organic growth from its “Same Store” facilities from rental rate increases, stabilized occupancy levels and disciplined levels of spending. Effective January 1, 2010, the Partnership added three additional facilities to the pool of “Same Store” facilities which were acquired and/or opened in 2006 and removed one facility that was identified for expropriation (see “Same Store” Facilities on page 10). On March 1, 2010, the Partnership increased rental rates at most locations. The Partnership reported a 5.6% increase in “Same Store” rental income, a 580 basis point improvement in weighted average occupancy levels, a 0.4% increase in operating expenses and a 9.1% increase in net operating income for the three months ended March 31, 2010 compared to the same period in 2009. These favourable trends are expected to continue as occupancy levels remain higher than last year.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Partnership’s significant accounting policies are outlined in Note 2 of the Partnership’s audited annual consolidated financial statements.

*Reclassifications*

The interim unaudited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year interim unaudited consolidated financial statements.

*Financial Instruments*

The Partnership designates its financial instruments into one of the following five categories: (i) held for trading; (ii) available for sale; (iii) held to maturity; (iv) loans and receivables; and (v) other financial liabilities.

Financial instruments classified as held for trading or available for sale are measured at fair value with any changes in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are measured at amortized cost.

*Hedges*

The Partnership uses interest rate swap contracts to manage interest rate risks and has designated all interest rate swap contracts as hedges. Payment and receipts under interest rate swap contracts are recognized as adjustments to interest expense on an accrual basis. Any resulting carrying amounts are included as an asset or liability.

Derivative financial instruments that are designed as cash flow hedges, such as the floating to fixed interest rate swap agreements are presented at their fair value. The gains or losses arising from the revaluation at the end of each period are included in other comprehensive income to the extent of hedge effectiveness. All changes in the fair value associated with the ineffective portion of the hedge are recorded in income (loss). For effective fair value hedges, such as the fixed to floating interest rate swap agreements, changes in the fair value of the hedging derivative are recorded in other comprehensive income. The carrying value of the hedged item is adjusted for unrealized gains or losses attributable to the hedged risk and also recognized in other comprehensive income.

*Revenue Recognition Policy*

Rental income is recognized in the period in which the customer occupies the storage unit pursuant to the terms of a month-to-month agreement. Payments received prior to the period in which the customer occupies the storage unit are recorded as advance payments from renters and recognized as income in the future period to which they relate.

*Accruals for Expenses*

The Partnership accrues for property tax expenses and other operating expenses each quarter based on historical trends and anticipated disbursements. If these estimates are incorrect, the timing of expense recognition will be affected.

*Capitalization Policy*

Expenditures related to the renovation or betterment of the facilities are capitalized and amortized on a straight-line basis over five years. Computers and software and equipment are capitalized and amortized on a straight-line basis over three years.

*Properties under Development*

Properties under development are recorded at cost and not amortized. Properties under development are reclassified to real estate facilities and amortized when the facility commences operations.

*Evaluation of Asset Impairment*

Assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized when an assets carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. Any impairment loss would be determined as the excess of the carrying value of the assets over their fair value.

*Environmental Liabilities*

The Partnership accrues environmental assessments and estimated remediation costs when it is probable that such efforts will be required and the related costs can be reasonably estimated. The Partnership's current practice is to conduct environmental investigations in connection with property acquisitions. Although there can be no assurance, the Partnership is not aware of any environmental contamination of any facilities which individually or in the aggregate would be material to the Partnership's overall business, financial condition, or results of operations.

## Future Changes to Accounting Policies

*International Financial Reporting Standards ("IFRS") Overview*

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of IFRS will be effective for Canadian publicly accountable enterprises on January 1, 2011, including the Partnership. IFRS will replace Canadian GAAP for these enterprises. Comparative information under IFRS will also need to be provided for reporting purposes.

*IFRS Changeover Plan*

The Partnership has developed a changeover plan to IFRS which includes various project milestones, education and training, and allocation of resources and support from the executive management team. The changeover plan consists of the following five phases:

1. Enterprise risk assessment;
2. Detailed gap analysis;
3. Pilot phase;
4. Parallel processing; and
5. Post implementation.

The first phase involves performing a high-level risk assessment of areas that may be impacted by the changeover to IFRS. The risk assessment was performed by external consultants. Based on the results of the risk assessment, the Partnership's risk was considered to be relatively low due to the lack of complexity in the business.

The second phase involves analyzing the key differences between Canadian GAAP and IFRS and understanding its impact on the Partnership's accounting policies, information systems, internal controls, financial reporting and business processes and initiatives. This will be an ongoing process as the International Accounting Standards Board ("IASB") and the AcSB issue new standards and exposure drafts. The Partnership's accounting policies under IFRS are still being reviewed by various stakeholders. The final selection of significant accounting policy choices under IFRS will be made in the second half of 2010.

The third phase includes the adoption, implementation and communication of significant changes under IFRS and its related impact on the financial results of the Partnership. This phase is still underway and updates will be continuously communicated in the MD&A section in future filings.

The fourth phase includes the simultaneous processing and reporting of transactions under Canadian GAAP and IFRS from the periods of January 1, 2010 to December 31, 2010. The information systems and internal controls over financial reporting and disclosure will be redesigned to account for the implementation of the real estate valuation process. In addition, revisions will be made to assess the effectiveness of such new controls and procedures. This process is still underway.

The fifth phase includes the continuous review and monitoring of IFRS and the implementation and training of new IFRS pronouncements subsequent to December 31, 2010.

*Impact of Adoption of IFRS*

IFRS is based on a conceptual framework similar to Canadian GAAP. However, there are significant differences in certain matters of recognition, measurement, presentation and disclosure. The Partnership has identified certain standards that may have a significant financial impact at the changeover date:

*IFRS 1: First-Time Adoption of IFRS ("IFRS 1")*

Adoption of IFRS will initially require retrospective application on the basis that an entity has prepared its financial statements in accordance with IFRS since inception. Certain exemptions are available under IFRS 1 to assist with the difficulties associated with reformulating historical accounting information. These exemptions allow for prospective, rather than retrospective treatment, under certain circumstances, as prescribed by IFRS. All adjustments which arise on the convergence of IFRS from Canadian GAAP on the changeover date will be recognized in the opening balance of Unitholders' Equity.

Under IFRS 1, the Partnership can elect to recognize investment property on the adoption date at either cost or fair value. In connection with the transition to IFRS, the Partnership commissioned an appraisal of its real estate portfolio by Colliers International Reality Advisors, Inc., an independent real estate appraisal firm. As at October 1, 2009 the Partnership's real estate portfolio (excluding properties under development as at December 31, 2009) was valued at approximately $244 million. The difference between the fair value of the investment properties and the carrying value of the investment properties will be included as an increase to the opening balance of Unitholders' equity.

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, *Business Combination*s ("IFRS 3") retrospectively to business combinations that occurred before the date of transition to IFRS. The Partnership intends to make this election in order to only apply IFRS 3 to business combinations prospectively.

*IAS 40 - Investment Property ("IAS 40")*

Investment property is defined as property that is held to earn rentals or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity. Substantially all of the Partnership's properties qualify as investment property.

Under IFRS, investment property is initially recorded at cost. Subsequent to initial recognition, investment property is measured using either a fair value or a cost-based model. The fair value method will require the recognition of changes in fair value of the Partnership's properties in the income statement each period. The cost-based model records the properties at cost less accumulated depreciation or impairment and discloses the fair value of the properties in the notes to the financial statements. The Partnership is still evaluating the merits of both accounting policies and expects to finalize its decision in the second half of 2010.

In addition, administrative costs will increase as external valuations are performed on a periodic basis.

## Operating Results

The Partnership operates in a fragmented market that is dominated by private local self-storage owners and operators. In recent years, the Partnership has also experienced increased competition from national self-storage owners and operators. Competition leads to bidding wars on real estate acquisitions, pricing pressures on rental rates, higher marketing initiatives and discounting to improve occupancy levels. The Partnership believes that the operating and financial experience of its management team combined with the Partnership's conservative capital structure, brand name, geographic diversity and economies of scale should enable the Partnership to compete effectively.

Economic factors that may affect the Partnership include an economic recovery, easing in the credit markets, rising interest rates, and local real estate market conditions.

The Partnership's operating results include the dilutive impact of newly developed self-storage facilities. These facilities will continue to be dilutive during the initial "lease-up" period. See Property Operations - "Other Facilities" on page 12.

Net income of the Partnership was $1,240,000 or $0.14 per Unit for the three months ended March 31, 2010 compared to $1,530,000 or $0.17 per Unit for the same period in 2009. The decreases in net income and net income per Unit were due primarily to an increase in amortization of real estate facilities in connection with three new self-storage facilities placed in service in 2009.

## Property Operations

In order to evaluate the performance of the Partnership's portfolio, management reports the performance of the "Same Store" facilities separately from the performance of the "Other" facilities.

### Entire Portfolio

The following table summarizes the net operating income ("NOI") for all of the Partnership's properties for the three months ended March 31, 2010 and 2009. NOI is equal to rental income less cost of operations and management fees paid to CMP before amortization. This non-GAAP financial measure does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

| Three Months ended March 31, | 2010<br>$ | 2009<br>$ | Change<br>$ | Change<br>% |
|---|---|---|---|---|
| **Rental income** | | | | |
| Same Store Facilities | 5,492,000 | 5,201,000 | 291,000 | 5.6% |
| Facility subject to Expropriation | 273,000 | 279,000 | (6,000) | (2.2%) |
| 2007 Facilities | 567,000 | 429,000 | 138,000 | 32.2% |
| 2008 Facilities | 95,000 | 49,000 | 46,000 | 93.9% |
| 2009 Facility | 202,000 | — | 202,000 | |
| | 6,629,000 | 5,958,000 | 671,000 | 11.3% |
| **Cost of operations** | | | | |
| Same Store Facilities | 2,040,000 | 2,031,000 | 9,000 | 0.4% |
| Facility subject to Expropriation | 99,000 | 109,000 | (10,000) | (9.2%) |
| 2007 Facilities | 409,000 | 402,000 | 7,000 | 1.7% |
| 2008 Facilities | 119,000 | 161,000 | (42,000) | (26.1%) |
| 2009 Facility | 402,000 | — | 402,000 | |
| | 3,069,000 | 2,703,000 | 366,000 | 13.5% |
| **Management fees** | | | | |
| Same Store Facilities | 330,000 | 309,000 | 21,000 | 6.8% |
| Facility subject to Expropriation | 16,000 | 17,000 | (1,000) | (5.9%) |
| 2007 Facilities | 34,000 | 25,000 | 9,000 | 36.0% |
| 2008 Facilities | 6,000 | 3,000 | 3,000 | 100.0% |
| 2009 Facility | 12,000 | — | 12,000 | |
| | 398,000 | 354,000 | 44,000 | 12.4% |
| **Net operating income (loss)** | | | | |
| Same Store Facilities | 3,122,000 | 2,861,000 | 261,000 | 9.1% |
| Facility subject to Expropriation | 158,000 | 153,000 | 5,000 | 3.3% |
| 2007 Facilities | 124,000 | 2,000 | 122,000 | 6,100.0% |
| 2008 Facilities | (30,000) | (115,000) | 85,000 | (73.9%) |
| 2009 Facility | (212,000) | — | (212,000) | |
| | 3,162,000 | 2,901,000 | 261,000 | 9.0% |

“Same Store” Facilities

The Partnership seeks to achieve organic growth from its “Same Store” facilities from rental rate increases, stabilized occupancy levels and disciplined levels of spending.

“Same Store” facilities are defined as facilities that have been owned and operated at a mature, stabilized occupancy level since January 1 of the earliest period presented. Management considers a facility to be stabilized after it has been opened for at least three years. Management considers the operating performance of the “Same Store” facilities to be a more useful measure of the overall operating performance of the Partnership’s portfolio to analyze trends and provide meaningful comparisons.

As at March 31, 2010, the “Same Store” facilities consisted of 20 self-storage facilities located in the provinces of Alberta, British Columbia, Ontario and Quebec and contain approximately 1,683,000 net rentable square feet or approximately 72.7% of the total portfolio. The first of these properties opened in August 1979, and the last of these properties to commence operations opened in July 2006.

The Provinces of British Columbia and Ontario have announced that, beginning July 1, 2010, they will merge their provincial sales tax with the federal goods and services tax into a single harmonized sales tax that will be applied to many of the input costs currently incurred by the Partnership. Telecommunication and energy costs will increase 7% in British Columbia and 8% in Ontario since the Partnership is unable to claim these new provincial sales taxes as refunds due to temporary restrictions. In addition, this new provincial sales tax will also be applicable to rental income. The Partnership’s ability to pass these additional taxes on to our customers may be limited by existing rental market conditions.

The following table summarizes the net operating income ("NOI") of the "Same Store" facilities for the three months ended March 31, 2010 and 2009.

| Three Months ended March 31, | 2010<br>$ | 2009<br>$ | Change<br>$ | Change<br>% |
|---|---|---|---|---|
| **Rental income** (a) | | | | |
| Alberta | 284,000 | 246,000 | 38,000 | 15.4% |
| British Columbia | 1,024,000 | 919,000 | 105,000 | 11.4% |
| Ontario | 3,521,000 | 3,452,000 | 69,000 | 2.0% |
| Quebec | 663,000 | 584,000 | 79,000 | 13.5% |
| | 5,492,000 | 5,201,000 | 291,000 | 5.6% |
| **Cost of operations** | | | | |
| Property taxes (b) | 754,000 | 681,000 | 73,000 | 10.7% |
| Direct payroll | 495,000 | 495,000 | — | 0.0% |
| Repairs and maintenance (c) | 195,000 | 219,000 | (24,000) | (11.0%) |
| Utilities (d) | 205,000 | 238,000 | (33,000) | (13.9%) |
| Advertising (e) | 80,000 | 97,000 | (17,000) | (17.5%) |
| Insurance (f) | 34,000 | 29,000 | 5,000 | 17.2% |
| Other | 277,000 | 272,000 | 5,000 | 1.8% |
| | 2,040,000 | 2,031,000 | 9,000 | 0.4% |
| Management fees (g) | 330,000 | 309,000 | 21,000 | 6.8% |
| **Net operating income** | 3,122,000 | 2,861,000 | 261,000 | 9.1% |
| Gross margin (h) | 56.8% | 55.0% | | 1.8% |
| Weighted average for period: | | | | |
| Occupancy | 82.8% | 77.0% | | 5.8% |
| Realized annual rent per square foot (i) | $15.80 | $16.08 | | (1.7%) |
| End of period occupancy | 84.4% | 79.4% | | 5.0% |

(a) On March 1, 2010, the Partnership increased rental rates at most locations. The 5.6% increase in rental income, net of discounts, was also attributable to an increase in weighted average occupancy levels. This favourable trend is expected to continue as occupancy levels remain higher than last year. Discounts were $478,000 for the three months ended March 31, 2010 compared to $455,000 for the same period in 2009.

(b) The 10.7% increase in property taxes expense was due to increases in assessed values.

(c) The 11.0% decrease in repairs and maintenance expense was due primarily to lower snow removal costs compared to the same period in 2009.

(d) The 13.9% decrease in utilities expense was due to favourable weather conditions resulting in less energy consummated at the climate-controlled facilities compared to the same period in 2009.

(e) The 17.5% decrease in advertising expenses was due to a special radio advertising campaign in the first quarter of 2009.

(f) The 17.2% increase in insurance expense was due to higher property insurance premiums resulting from several water damage claims incurred in the prior periods.

(g) See "Management Agreement with CMP" on page 19.

(h) Gross margin is computed by dividing property net operating income by rental income.

(i) Realized rent per square foot represents the actual revenue earned per occupied square foot. Management believes this is a more relevant measure than posted or scheduled rates as posted rates can be discounted through promotions.

“Other” Facilities

“Other” facilities are defined as facilities that have been acquired or developed by the Partnership in 2007, 2008 and 2009, and were not owned or operated at a mature, stabilized occupancy level since January 1 of the earliest reported period presented. Generally, these facilities are still in their initial “lease-up” period and do not provide meaningful comparisons to prior periods. The Partnership will reclassify these properties to “Same Store” facilities once they have been owned and operated at a mature, stabilized occupancy level as at January 1 of the earliest reported period presented. In order to evaluate the performance yields of the Partnership’s recent acquisitions and developments, management further reports the “Other” facilities by the year in which they were acquired or developed. The following table provides information on the “Other” facilities as at March 31, 2010:

| Location | Cost $ | Ending Occupancy | Net Rentable Square Feet | Storage Units |
|---|---|---|---|---|
| **2007 Facilities** | | | | |
| 1310 Dundas Street, Woodstock (a) | 4,034,000 | 70.0% | 55,000 | 590 |
| 28 Estate Drive, Scarborough (b) | 11,227,000 | 74.8% | 86,000 | 940 |
| 955 Autoroute Chomeday, Laval (c) | 7,321,000 | 62.7% | 84,000 | 940 |
| | 22,582,000 | | 225,000 | 2,470 |
| **2008 Facility** | | | | |
| 3015 Boulevard Tessier, Laval (d) | 8,916,000 | 29.8% | 84,000 | 780 |
| | 8,916,000 | | 84,000 | 780 |
| **2009 Facilities** | | | | |
| 2801 Montee St-Remi, Dorval (e) | 10,292,000 | 27.3% | 88,000 | 880 |
| 6701 Boulevard Newman, LaSalle (f) | 9,210,000 | 25.4% | 85,000 | 880 |
| 1333 North Service Road, Oakville (g) | 15,805,000 | 0.5% | 86,000 | 770 |
| | 35,307,000 | | 259,000 | 2,530 |
| **Total** | 66,805,000 | | 568,000 | 5,780 |

(a) In May 2007, the Partnership acquired an existing self-storage facility which was originally built in 2006.

(b) In November 2006, the Partnership acquired a parcel of land for development into a new self-storage facility. The newly constructed facility opened in June 2007.

(c) In November 2006, the Partnership entered into 40-year land lease agreement (with an option to buy) to develop a new self-storage facility on the premises. The newly constructed facility opened in June 2007.

(d) In September 2007, the Partnership acquired a parcel of land for development into a new self-storage facility. The newly constructed facility opened on June 30, 2008.

(e) In July 2008, the Partnership acquired a parcel of land for development into a new self-storage facility. The newly constructed facility opened on May 21, 2009.

(f) In September 2008, the Partnership acquired a parcel of land for development into a new self-storage facility. The newly constructed facility opened on June 2, 2009.

(g) In December 2007, the Partnership acquired a parcel of land for development into a new self-storage facility. The newly constructed facility opened on December 24, 2009.

**Interest and Other Income**

Interest and other income include interest earned on cash balances and investments. Interest and other income were $4,000 for the three months ended March 31, 2010 compared to $8,000 for the same period in 2009.

**Amortization of Real Estate Facilities**

Amortization expense of real estate facilities was $1,427,000 for the three months ended March 31, 2010 compared to $1,134,000 for the same period in 2009. The increase was due to additional amortization expense in connection with three new self-storage facilities placed in service during 2009.

**Interest Expense and Commitment Fees**

Interest expense and commitment fees were $356,000 (net of $33,000 capitalized to finance properties under development) on weighted average borrowings of $39,197,000 for the three months ended March 31, 2010 compared to $144,000 (net of $130,000 capitalized to finance properties under development) on weighted average borrowings of $19,311,000 for the same period in 2009. The Partnership capitalizes certain interest expense incurred during the period a project is being developed and constructed. The Partnership ceases to capitalize interest expense on projects that are completed and placed in service.

Interest expense also includes amortization of deferred financing costs of $39,000 for the three months ended March 31, 2010 compared to $39,000 for the same period in 2009.

At the Partnership's option, the rate of interest charged on the Credit Facility is equal to either (i) the prime rate or (ii) a rate equal to the Banker's Acceptance Rate plus an applicable margin ranging from 0.75% to 1.00%. In addition, the Partnership is required to pay a commitment fee equal to 0.1875% on the unused portion of the Credit Facility.

The weighted average borrowing rate on the Credit Facility was 2.52% for the three months ended March 31, 2010 compared to 2.12% for the same period in 2009.

The interest rate on the mortgage note payable was 7.879% for the three months ended March 31, 2010 and 2009.

**Administrative**

Administrative expense consists primarily of professional fees, accounting personnel and reporting issuer costs. Administrative expenses were $112,000 for the three months ended March 31, 2010 compared to $123,000 for the same period in 2009. The prior year included higher professional fees incurred in connection with responses to the new SIFT legislation. Professional fees will continue to include ongoing costs to monitor the SIFT legislation and additional fees in connection with the changeover to IFRS.

**Income Tax Benefit**

The Partnership recorded a future income tax expense of $31,000 during the three months ended March 31, 2010 compared to a future income tax benefit of $22,000 for the same period in 2009, respectively, due to the implications on the Partnership's current tax status arising from amendments to the *Income Tax Act* (Canada) intended to eliminate certain tax advantages presently enjoyed by certain investors in publicly-traded specified investment flow-through trusts or partnerships, including the Partnership. This future tax benefit relates to the temporary difference between the accounting and tax basis of the Partnership's assets, and this benefit is expected to reverse after the date that the amendments are expected to apply to the Partnership. The amendments are not expected to apply to the Partnership until 2011 provided that the Partnership complies with the normal growth guidelines issued by the Department of Finance. See "Tax Treatment and Notices" on page 17.

## Quarterly Results

*Seasonality*

The self-storage industry is subject to seasonal fluctuations in occupancy levels with the spring and summer months generating increased rental activity compared to decreased rental activity in the colder winter months. The Partnership experiences the effects of these fluctuations as spring and summer occupancies are typically higher than those in the fall and winter.

The following table presents a summary of selected operating results of the Partnership on a quarterly basis.

| | Q208 | Q308 | Q408 | Q109 | Q209 | Q309 | Q409 | Q110 |
|---|---|---|---|---|---|---|---|---|
| Revenues | $6,196,000 | $6,337,000 | $5,963,000 | $5,901,000 | $5,834,000 | $6,361,000 | $6,302,000 | $6,633,000 |
| Net Income | $1,997,000 | $2,138,000 | $1,552,000 | $1,530,000 | $1,717,000 | $1,510,000 | $ 781,000 | $1,240,000 |
| Net Income per Unit | $0.22 | $0.24 | $0.17 | $0.17 | $0.19 | $0.17 | $0.09 | $0.14 |

The Partnership experienced a slowdown in the business commencing in the quarter ended December 31, 2008 due to economic uncertainty and financial market volatility. The demand for storage space declined as individuals and businesses modified their spending habits.

The significant decrease in net income and net income per Unit for the quarter ended December 31, 2009 was due to the write-off of repositioning costs of $411,000 that were previously included in properties under development.

## Liquidity and Capital Resources

Cash and cash equivalents were $289,000 as at March 31, 2010. The Partnership generates sufficient cash flows from operations to finance its operations, both on a short-term and long-term basis. In addition, the Partnership has a $75,000,000 revolving Credit Facility with a syndicate of commercial banks for general corporate purposes and to provide short-term financing for property acquisitions and developments. Net cash provided by operating activities for the three months ended March 31, 2010 was $2,210,000 compared to $2,985,000 for the same period in 2009.

*Credit Facility*

Under the Partnership Agreement, the total amount of secured and unsecured debt of the Partnership is limited to no more than seven times the earnings of the Partnership before interest, taxes, depreciation and amortization for the 12 months ended the immediately preceding financial quarter of the Partnership or approximately $82,803,000 as at March 31, 2010.

On December 31, 2007, the Partnership entered into the Credit Facility with a syndicate of commercial banks. The $75,000,000 revolving Credit Facility matures on December 31, 2010. The Credit Facility is collateralized by four real estate facilities with a carrying value of $5.4 million and a general security agreement. Amounts due under the Credit Facility were $41,000,000 as at March 31, 2010.

At the Partnership's option, the rate of interest charged on the Credit Facility is equal to either (i) the prime rate or (ii) a rate equal to the Banker's Acceptance Rate plus an applicable margin ranging from 0.75% to 1.00%. In addition, the Partnership is required to pay a commitment fee equal to 0.1875% on the unused portion of the Credit Facility.

Under the terms of the Credit Facility, the Partnership is required to (i) maintain a debt service coverage ratio (as defined) of 1.50 to 1.00, (ii) maintain a funded debt to value ratio (as defined) of 0.50 to 1.00, (iii) maintain an interest coverage ratio (as defined) of 2.50 to 1.00, and (iv) maintain a tangible net worth (as defined) of $80,000,000. In addition, under the Credit Facility, distributions to be paid to Unitholders in a year are subject to a limit calculated with respect to cash flows. As at March 31, 2010, the Partnership was in compliance with the terms of the Credit Facility.

*Interest Rate Swap Agreements*

On March 2, 2009, the Partnership entered into interest rate swap agreements to hedge a portion of the exposure to variable interest rates associated with the Credit Facility. These agreements involve an exchange of fixed and floating rate interest payments without the exchange of the underlying principal amount. Interest received under the interest rate swap agreements is based on the 30 day Banker's Acceptance Rate. The notional amounts of the swap agreements are $19,300,000 and $20,000,000 and the fixed interest rates are 1.45% and 1.42%, respectively. Both interest rate swap agreements terminate on December 31, 2010. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

As at March 31, 2009, the fair value of the liability for the interest rate swap agreements was $177,000. The changes in fair value were $86,000 for the three months ended March 31, 2010 and were recorded as a comprehensive income.

*Capital Improvements*

The Partnership invests capital on a continuous basis to ensure the functionality and aesthetics of its self-storage facilities. Management believes these improvements are necessary to remain competitive with newer facilities in the marketplace.

The Partnership budgeted $1,500,000 in capital improvements for 2010. As at March 31, 2010, the Partnership incurred $49,000 or 3.3% of its budgeted amount.

*Property Acquisitions and Developments*

Property acquisition and development costs are funded from the Partnership's cash flows from operations after distributions and from the Credit Facility. In addition, the Partnership reimburses CMP for out-of-pocket acquisition and construction costs. These costs are capitalized and included in properties under development on the Partnership's consolidated balance sheet.

As mentioned previously, the Partnership continues to develop additional self-storage facilities in locations where the Partnership has previously acquired the land. The Partnership has delayed the construction and opening of certain properties under development. The Partnership may continue to acquire additional existing self-storage facilities or properties for development, albeit at a slower pace.

As at March 31, 2010, the properties under development consist of:

| Location | Estimated Cost $ | Actual Cost to Date $ | Estimated Net Rentable Square Feet | Estimated Storage Units |
|---|---|---|---|---|
| 9355 Leslie Street, Richmond Hill, ON (a) | 12,740,000 | 5,103,000 | 82,000 | 860 |
| 3545 St. Joseph Boulevard, Orleans, ON (b) | 7,000,000 | 1,040,000 | 76,000 | 610 |
| | 19,740,000 | 6,143,000 | 158,000 | 1,470 |

(a) On December 18, 2007, the Partnership announced the acquisition of a property encompassing 3.26 acres of vacant land for a purchase price of $3,342,000 for development into a three storey climate controlled self-storage facility. The project is expected to be completed by the end of 2010.

(b) On October 3, 2008, the Partnership announced the acquisition of a property encompassing 10.6 acres of vacant land for a purchase price of approximately $889,000. This project is currently on hold.

Estimates of costs to develop these properties have been prepared without information on exact unit mix and architectural drawings and the actual costs may exceed the current estimates. Management's plans and expectations respecting the acquisition and development of these properties are subject to various assumptions, including assumptions respecting the availability and cost of construction materials and labour, there being limited costs, difficulties or delays related to obtaining construction and operating permits. Management's plans and expectations are also subject to various known and unknown risks, uncertainties and other facts, including the risk that management's assumptions may prove to be inaccurate, timing, budgeting and other risks, including construction delays or cost overruns that may increase project costs, and other risk factors. See "Forward-Looking Statements" on page 5.

**Distributions**

The board of directors of the General Partner analyzes the distribution level on a quarterly basis. Among the items considered when determining distribution levels are historical property operations, expected property operations of "Other" Facilities at stabilized occupancy levels, current cash reserves and obligations of the Partnership, including debt, expected capital expenditures and other factors.

In light of poor economic and capital (equity and debt) market conditions, the board of directors of the General Partner determined that it was prudent to reduce quarterly distributions commencing with the distributions paid on March 31, 2009.

The Partnership distributed $2,034,000 during the three months ended March 31, 2010 compared to $3,739,000 during the same period in 2009.

The board of directors of the General Partner declared a distribution of $0.225 per Unit to be paid on March 31, 2010 to Unitholders of record at the close of business on March 15, 2010.

The following table summarizes the distributions in excess of cash flows provided by operating activities and net income.

| Three Months ended March 31, | **2010**<br>**$** | **2009**<br>**$** |
|---|---|---|
| Cash flows from operating activities | 2,210,000 | 2,985,000 |
| Net income | 1,240,000 | 1,530,000 |
| Distributions paid to Unitholders | 2,034,000 | 3,739,000 |
| Excess (shortfall) of cash flows from operating activities over distributions | 176,000 | (754,000) |
| Shortfall of net income over distributions | (794,000) | (2,209,000) |

The shortfall of cash flows from operating activities and net income over distributions was funded from the Partnership's revolving Credit Facility in 2009.

Net income includes amortization expense of real estate facilities, intangible assets, deferred financing costs and other non-cash items. The shortfall of net income over distributions was due primarily to amortization expense of real estate facilities of $1,427,000 during the three months ended March 31, 2010 and $1,134,000 during the three months ended March 31, 2009.

**Contractual Obligations**

The Partnership's major contractual obligations as at March 31, 2010 were as follows:

| Year | Debt (a) $ | Contractual Obligations (b) $ | Land Lease (c) $ | Total $ |
|---|---|---|---|---|
| 2010 | 41,107,000 | 7,587,000 | 99,000 | 48,793,000 |
| 2011 | 153,000 | — | 132,000 | 285,000 |
| 2012 | 4,965,000 | — | 132,000 | 5,097,000 |
| 2013 | — | — | 132,000 | 132,000 |
| 2014 | — | — | 132,000 | 132,000 |
| Thereafter | — | — | 5,283,000 | 5,283,000 |
| Total | 46,225,000 | 7,587,000 | 5,910,000 | 59,722,000 |

(a) Scheduled principal repayments on the mortgage note payable and amounts due under the Credit Facility.
(b) Remaining contractual obligations for the development of 9355 Leslie Street in Richmond Hill, Ontario.
(c) In November 2006, the Partnership entered into a 40-year land lease agreement at a facility in Laval, Québec with an option to purchase the land in November 2016. The lease terminates in November 2046 and the option price of the land is $1,550,000.

**Contingency**

The Ministry of Transportation of British Columbia (the "Ministry") has notified the Partnership that it intends to expropriate one of the Partnership's facilities for highway right-of-way purposes by August 15, 2010. The net carrying value of this property was $700,000 as at March 31, 2010. The Ministry and the Partnership's management are negotiating the compensation due pursuant to the *Expropriation Act* (British Columbia). No agreements have been entered into with respect to this matter. Estimated gross proceeds are expected to be approximately $11,000,000 plus additional claims for business disruption. See "Forward-Looking Statements" on page 5.

**Tax Treatment and Notices**

Taxes based on the income of the Partnership are the responsibility of the individual partners and, accordingly, each Unitholder is responsible for reporting their pro-rata share (allocated based on the amount of distributions received) of the Partnership's income for tax purposes on their tax return. The pro-rata share of income to be recognized is based on the Partnership's income for tax purposes and not on its reported pre-tax income. Partnership income for tax purposes and its reported pre-tax income differ due to differences in the reporting of various items. The major difference is the amount of capital cost allowance that may be claimed for tax purposes versus the amount of amortization recognized for accounting purposes.

The *Income Tax Act* (Canada) has been amended to eliminate tax advantages presently enjoyed by certain investors in publicly-traded specified investment flow-through trusts or partnerships, including the Partnership. Very generally, commencing in the Partnership's taxation year ending in 2011, the Partnership will be required to pay tax on its income at rates equivalent to that of a corporation. In addition, income subject to the tax allocated to holders of Units will be taxed as though received by them as taxable dividends paid by a taxable Canadian corporation. In the case of a Unitholder that is an individual, tax dividend gross-up and tax credit rules regularly applicable to such dividends will then apply to such deemed dividends. A Unitholder that is a corporation will generally be entitled to deduct the amount of such deemed dividends in computing its income for tax purposes. The effect of these measures, generally speaking, will be that income earned by the Partnership will be taxed at combined rates comparable to the rates that apply to income earned and distributed by Canadian corporations.

The above changes will not be expected to apply to the Partnership until the Partnership's taxation year ending 2011, unless the Partnership fails to comply with the normal growth guidelines issued by the Department of Finance (the "Growth Guidelines"). The above changes will apply with respect to any taxation year of the Partnership in which the Partnership exceeds the Growth Guidelines and thereafter.

The Growth Guidelines provide that a SIFT will not be considered to have exceeded "normal growth" if its equity capital were to grow as a result of issuances of new equity, in any of the intervening periods described below, by an amount that does not exceed the greater of $50 million and an objective "safe harbour". The Growth Guidelines indicate that the safe harbour amount is measured by reference to a SIFT's market capitalization based on the trading price of a SIFT's issued and outstanding publicly-traded units as at the end of trading on October 31, 2006 (the "Market Capitalization"). For the period from November 1, 2006 to the end of 2007, a SIFT's safe harbour is 20% of the Market Capitalization. A SIFT's safe harbour for each subsequent calendar year to the end of 2010 is an additional 20% of the Market Capitalization. The annual safe harbour amounts are cumulative, whereas the $50 million amounts are not cumulative. Thus, the aggregate safe harbour amount for the period from November 1, 2006 to the end of 2010 is 100% of Market Capitalization.

There can be no assurance that the Partnership (inadvertently or otherwise) will not exceed the Growth Guidelines before its taxation year ending in 2011, thereby resulting in the earlier application of the tax changes described above.

The Partnership currently does not qualify for the real estate investment trust exemption (the "REIT Exemption") from such tax changes and has no assurance that it will qualify for the REIT Exemption. Management, together with its legal and accounting advisors, has been engaged in an ongoing effort to identify and implement a means to permit the Partnership to qualify for the REIT Exemption since the date when the changes to the *Income Tax Act* (Canada) described above were issued in draft form, including extensive discussions with the Canada Revenue Agency. Among other things, the Partnership applied to the Canada Revenue Agency to obtain an advance income tax ruling with respect to two separate proposed reorganization transactions, each intended to effectively allow the Partnership to be reorganized as a mutual fund REIT on a tax-free basis to all of the Unitholders. However, the Canada Revenue Agency was not able to provide assurances as to the intended tax consequences of these proposed transactions and, accordingly, Management could not recommend their implementation. Management subsequently made submissions to the Department of Finance Canada to request that the *Income Tax Act* (Canada) be amended to permit the effective conversion of a qualifying SIFT partnership into a REIT on a tax-deferred basis. If the *Income Tax Act* (Canada) is amended on the basis proposed, management believes the Partnership could be reorganized as a mutual fund REIT on a tax-deferred basis to the Unitholders. To date, discussions with the Department of Finance Canada have been positive, however, no reference to any form of conversion rule was included in the tax measures announced in the March 4, 2010 Federal Budget. There is no assurance that the Department of Finance Canada will accept or adopt the proposal made by management. The Partnership's level of distributions may be negatively impacted if the Partnership does not qualify for the REIT exemption.

GAAP requires the recognition of future income taxes based on the Partnership's structure at the balance sheet date, and does not permit the consideration of future changes to the structure that may enable the Partnership to quality for the REIT Exemption. Accordingly, the Partnership recorded a future income tax expense of $31,000 during the three months ended March 31, 2010. This non-cash future income tax expense arises from temporary differences between the estimated accounting and tax basis of the Partnership's assets and liabilities and is expected to reverse on the date, if any, that the Partnership qualifies under the REIT Exemption or, if the Partnership does not qualify under REIT Exemption, as differences are incurred after January 1, 2011 between accounting income and income for tax purposes.

## Non-GAAP Financial Measures

Funds from Operations ("FFO") and Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") are supplementary performance measures for real estate companies used by investors and analysts to evaluate the cash generating ability of an entity (in the case of FFO) or its assets (in the case of EBITDA) without taking into account the impact of amortization (and interest, in the case of EBITDA), which may vary significantly between real estate companies based on when particular assets were acquired and financed. These performance measures do not have any standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

The Real Property Association of Canada ("REALpac") defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable real estate and extraordinary items, plus depreciation and amortization, plus future income taxes and after adjustments for equity accounted for entities and non-controlling interests. Adjustments for equity accounted for entities and joint ventures and non-controlling interests are calculated to reflect funds from operations on the same basis as the consolidated properties.

EBITDA is equal to earnings before interest income, interest expense, taxes, depreciation and amortization. EBITDA is also used to determine the debt capacity of the Partnership.

FFO and EBITDA do not take into consideration scheduled principal payments on debt, capital improvements, distributions or other obligations of the Partnership. Accordingly, FFO and EBITDA are not substitutes for the Partnership's cash flow or net income as a measure of the Partnership's liquidity or operating performance or ability to pay distributions.

The following tables calculate FFO and EBITDA for the three months ended March 31, 2010 and 2009.

| Three Months ended March 31, | **2010**<br>**$** | **2009**<br>**$** | **Change**<br>**$** | **Change**<br>**%** |
|---|---|---|---|---|
| **Calculation of FFO:** | | | | |
| Net income | 1,240,000 | 1,530,000 | (290,000) | (19.0%) |
| Plus: amortization of real estate facilities | 1,427,000 | 1,134,000 | 293,000 | 25.8% |
| Less: future income tax (benefit) expense | 31,000 | (22,000) | 53,000 | 240.9% |
| FFO | 2,698,000 | 2,642,000 | 56,000 | 2.1% |
| Weighted average number of Units | 9,040,181 | 9,040,181 | — | 0.0% |
| **FFO per Unit** | 0.30 | 0.29 | 0.01 | 3.4% |
| **Calculation of EBITDA:** | | | | |
| Net income | 1,240,000 | 1,530,000 | (290,000) | (19.0%) |
| Plus: amortization of real estate facilities | 1,427,000 | 1,134,000 | 293,000 | 25.8% |
| Plus: interest and commitment fees | 356,000 | 144,000 | 212,000 | 147.2% |
| Less: interest and other income | (4,000) | (8,000) | 4,000 | 50.0% |
| Less: future income tax (benefit) expense | 31,000 | (22,000) | 53,000 | 240.9% |
| EBITDA | 3,050,000 | 2,778,000 | 272,000 | 9.8% |
| Weighted average number of Units | 9,040,181 | 9,040,181 | — | 0.0% |
| **EBITDA per Unit** | 0.34 | 0.31 | 0.03 | 9.7% |

## Transactions with Related Parties

*Management Agreement with CMP*

Management fees are payable to CMP pursuant to the terms of the amended and restated management agreement between the Partnership and CMP dated as at January 1, 1999 (the "Management Agreement"). Management fees are equal to 6% of Gross Operating Revenues (defined below) of each property, calculated monthly. "Gross Operating Revenue" means all cash receipts (excluding security deposits paid by tenants unless and until recognized as income by the Partnership) received by or on behalf of the Partnership under each lease of space on the properties. In addition to management fees, the Partnership reimburses CMP for any reasonable expenses or costs it incurs or disbursements it makes on behalf of the Partnership in connection with its duties as General Partner and property manager.

*Public Storage Trade-Mark and License Agreement*

For as long as (i) either CMP or Public Storage in the United States ("PS") or any of their respective affiliates is the General Partner of the Partnership and (ii) CMP is the Property Manager of the Partnership pursuant to the Management Agreement, the Partnership may use the name and trade-mark "Public Storage" and related marks, slogans, caricatures, designs and other trade or service items in connection with the Partnership properties. If at any time, CMP or PS or any of their respective affiliates ceases to be the General Partner, the Partnership would no longer be able to use the name and trade-mark "Public Storage" and related marks, slogans, caricatures, designs and other trade or service items. In addition, if CMP ceased to be the Property Manager of the Partnership as result of the termination of the Management Agreement, the Partnership would no longer be able to use the name and trade-mark "Public Storage" and related marks, slogans, caricatures, designs and other trade or service items.

**Disclosure Controls and Procedures and Changes in Internal Control Over Financial Reporting**

The Partnership maintains disclosure controls and procedures to provide reasonable assurance that information disclosed externally is complete, reliable and timely. The Partnership also maintains internal control over financial reporting which is designed to provide reasonable assurance regarding the reliability of its financial reporting.

Note, however, that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances, (ii) the risk that controls may become inadequate due to changes in conditions, (iii) the risk that the degree of compliance may deteriorate and (iv) the impact of isolated errors.

Additionally, controls may be circumvented by the authorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

No changes were made to the design of the Partnership's internal control over financial reporting during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Partnership has filed certificates signed by the President and the Chief Financial Officer that, among other things, report on the design of the Partnership's disclosure controls and procedures and internal controls over financial reporting.

Consolidated Financial Statements

# Public Storage Canadian Properties

(A Limited Partnership Governed by the *Limited Partnerships Act* of Ontario)

March 31, 2010

## CONSOLIDATED BALANCE SHEETS
## (Unaudited)

| | March 31, 2010<br>$ | December 31, 2009<br>$ |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **289,000** | 268,000 |
| Real estate facilities | | |
| Land and land improvements | **37,861,000** | 37,861,000 |
| Buildings and equipment | **135,570,000** | 135,520,000 |
| | **173,431,000** | 173,381,000 |
| Less accumulated amortization | **(44,808,000)** | (43,381,000) |
| | **128,623,000** | 130,000,000 |
| Properties under development | **6,143,000** | 5,472,000 |
| Receivables and other assets | **961,000** | 523,000 |
| Future income taxes | **1,131,000** | 1,162,000 |
| | **137,147,000** | 137,425,000 |
| **LIABILITIES AND PARTNERS' EQUITY** | | |
| Accounts payable and accrued liabilities (Note 4) | **2,638,000** | 3,346,000 |
| Advance payments from renters | **1,758,000** | 1,739,000 |
| Interest rate swaps (Note 3) | **177,000** | 263,000 |
| Debt (Note 3) | **46,097,000** | 44,892,000 |
| Commitments and contingencies (Note 5) | | |
| **Partners' equity** | | |
| 9,040,181 partnership units issued and outstanding | **86,477,000** | 87,185,000 |
| **Total liabilities and partners' equity** | **137,147,000** | 137,425,000 |

*See accompanying notes*

# INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND PARTNERS' EQUITY (Unaudited)

Three Months ended March 31,

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Revenue** | | |
| Rental income | **6,629,000** | 5,959,000 |
| Interest and other income | **4,000** | 8,000 |
| | **6,633,000** | 5,967,000 |
| **Cost and expenses** | | |
| Cost of operations | **3,069,000** | 2,704,000 |
| Management fees (Note 4) | **398,000** | 354,000 |
| Amortization of real estate facilities | **1,427,000** | 1,134,000 |
| Interest and commitment fees | **356,000** | 144,000 |
| Administrative | **112,000** | 123,000 |
| | **5,362,000** | 4,459,000 |
| Income before income taxes | **1,271,000** | 1,508,000 |
| Future income tax benefit (expense) | **(31,000)** | 22,000 |
| **Net income for the period** | **1,240,000** | 1,530,000 |
| **Weighted average partnership units outstanding** | **9,040,181** | 9,040,181 |
| **Net income per unit** | **0.14** | 0.17 |
| Net income for the period | **1,240,000** | 1,530,000 |
| Other comprehensive income - change in value of interest rate swaps | **86,000** | — |
| **Comprehensive income for the period** | **1,326,000** | 1,580,000 |
| Partners' equity, beginning of year | **87,185,000** | 90,046,000 |
| Net income for the period | **1,240,000** | 1,530,000 |
| Other comprehensive income | **86,000** | (479,000) |
| Declared distributions | **(2,034,000)** | (2,034,000) |
| **Partners' equity, end of year** | **86,477,000** | 89,063,000 |

*See accompanying notes*

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
## (Unaudited)

Three Months ended March 31,

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income for the period | **1,240,000** | 1,530,000 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Amortization of real estate facilities | **1,427,000** | 1,134,000 |
| Amortization of deferred financing costs | **39,000** | 39,000 |
| Increase in receivables and other assets | **(439,000)** | (18,000) |
| Decrease (increase) in future income tax assets | **32,000** | (22,000) |
| Increase (decrease) in accounts payable and accrued liabilities | **(108,000)** | 291,000 |
| Increase in advance payments from renters | **19,000** | 31,000 |
| **Net cash provided by operating activities** | **2,210,000** | 2,985,000 |
| **INVESTING ACTIVITIES** | | |
| Properties under development | **(671,000)** | (1,602,000) |
| Trailing construction costs | **(600,000)** | — |
| Improvements to real estate facilities | **(50,000)** | (29,000) |
| **Net cash used in investing activities** | **(1,321,000)** | (1,631,000) |
| **FINANCING ACTIVITIES** | | |
| Borrowings from credit facility | **2,700,000** | 1,000,000 |
| Repayments of credit facility | **(1,500,000)** | — |
| Repayments of mortgage note payable | **(34,000)** | (32,000) |
| Distributions paid to unitholders | **(2,034,000)** | (3,739,000) |
| **Net cash used in financing activities** | **(868,000)** | (2,771,000) |
| **Net decrease in cash and cash equivalents** | **(21,000)** | (1,417,000) |
| Cash and cash equivalents, beginning of period | **268,000** | 2,390,000 |
| **Cash and cash equivalents, end of period** | **289,000** | 973,000 |
| **Supplemental cash flow information** | | |
| Interest paid | **388,000** | 259,000 |

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2010

## 1. DESCRIPTION OF PARTNERSHIP

Public Storage Canadian Properties (the "Partnership") is a publicly held limited partnership formed under the *Limited Partnerships Act* (Ontario). The Partnership owns, and derives substantially all of its income from, 28 self-storage facilities, of which 16 are located in Ontario, 5 are located in British Columbia, 6 are located in Québec and 1 is located in Alberta. In addition, the Partnership owns parcels of land in Orleans, Ontario and Richmond Hill, Ontario for development into new self-storage facilities.

The facilities are operated under the trade name "Public Storage" and are managed by the General Partner of the Partnership pursuant to a separate property management agreement (see Note 4). The General Partner of the Partnership is Canadian Mini-Warehouse Properties Company ("CMP"). All of the shares of CMP are beneficially owned by the family of B. Wayne Hughes (the "Hughes Family"). Entities controlled by the Hughes Family owned 5,129,717 units of the Partnership ("Units") or approximately 56.7% of the outstanding Units as at March 31, 2010 and December 31, 2009.

## 2. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements have been prepared by the Partnership in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to interim financial statements, applied on a consistent basis. These interim unaudited consolidated financial statements follow the same accounting principles and methods of application as those described in Note 2 to the Partnership's audited consolidated financial statements as at and for the year ended December 31, 2009. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the annual audited consolidated financial statements.

The preparation of these interim unaudited consolidated financial statements and the accompanying notes require management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments (which include only normal, recurring adjustments) necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods are not necessarily indicative of the results expected for the full year.

The interim unaudited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year interim unaudited consolidated financial statements.

These interim unaudited consolidated financial statements of the Partnership have not been reviewed by our independent auditors.

## 3. DEBT

Under the Partnership Agreement, the total amount of secured and unsecured debt of the Partnership is limited to no more than seven times the earnings of the Partnership before interest, taxes, depreciation and amortization for the 12 months ended the immediately preceding financial quarter of the Partnership or approximately $82,803,000 as at March 31, 2010.

The components of debt as at March 31, 2010 and December 31, 2009 are as follows:

| | **2010**<br>$ | **2009**<br>$ |
|---|---|---|
| Amounts due under credit facility | **41,000,000** | 39,800,000 |
| Mortgage note payable | **5,225,000** | 5,259,000 |
| Deferred financing costs | **(128,000)** | (167,000) |
| Total | **46,097,000** | 44,892,000 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
# (Unaudited)

March 31, 2010

**Amounts due under credit facility**

On December 31, 2007, the Partnership signed a credit agreement with a syndicate of commercial banks (the "Credit Facility"). The $75 million revolving Credit Facility matures on December 31, 2010. The Credit Facility is collateralized by four real estate facilities with a carrying value of $5.4 million and a general security agreement.

At the Partnership's option, the rate of interest charged on the Credit Facility is equal to either (i) the Prime Rate or (ii) a rate equal to the Banker's Acceptance Rate plus an applicable margin ranging from 0.75% to 1.00%. In addition, the Partnership is required to pay a standby fee equal to 0.1875% based on the unused portion of the Credit Facility. The weighted average borrowing rate was 2.52% for the three months ended March 31, 2010 (2009 – 2.18%).

Under the terms of the Credit Facility, the Partnership is required to (i) maintain a debt service coverage ratio (as defined) of 1.50 to 1.00, (ii) maintain a funded debt to value ratio (as defined) of 0.50 to 1.00, (iii) maintain an interest coverage ratio (as defined) of 2.50 to 1.00 and (iv) maintain a tangible net worth (as defined) of $80,000,000. In addition, under the Credit Facility, distributions to be paid to Unitholders in a year are subject to a limit calculated with respect to cash flows. As at March 31, 2010 and December 31, 2009, the Partnership was in compliance with the terms of the Credit Facility.

**Mortgage note payable**

In July 2006, the Partnership assumed a 7.879% mortgage note payable of $5,676,000 in connection with the acquisition of an existing self-storage facility in St. Laurent, Québec. The note payable is secured by this facility and matures in November 2012.

Scheduled principal payments on the mortgage note payable are as follows:

| | $ |
|---|---:|
| 2010 | **107,000** |
| 2011 | **153,000** |
| 2012 | **4,965,000** |
| Total | **5,225,000** |

Interest expense on the mortgage note payable for the period ended March 31, 2010 was $102,000 (2009 – $104,000).

**Interest rate swap agreements**

On March 2, 2009, the Partnership entered into interest rate swap agreements to hedge a portion of the exposure to variable interest rates associated with the Credit Facility. These agreements involve an exchange of fixed and floating rate interest payments without the exchange of the underlying principal amount. Interest received under the interest rate swap agreements is based on the 30 day Banker's Acceptance Rate. The notional amounts of the swap agreements are $19,300,000 and $20,000,000 and the fixed interest rate are 1.45% and 1.42%, respectively. Both interest rate swap agreements terminate on December 31, 2010. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

As at March 31, 2010, the fair value of the interest rate swap agreements was $177,000. The changes in fair value were recorded as comprehensive income during the period.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
# (Unaudited)

March 31, 2010

## 4. RELATED PARTY TRANSACTIONS

Pursuant to the terms of the amended and restated management agreement dated as of January 1, 1999, between CMP and the Partnership (the "Management Agreement"), CMP manages the operations of the mini-warehouses facilities of the Partnership for a management fee of 6% of Gross Operating Revenue (defined in the Management Agreement as all cash receipts (excluding security deposits paid by tenants unless and until recognized as income) received by or on behalf of the Partnership under each lease of space). During the period ended March 31, 2010, the Partnership incurred management fees of $398,000 (2009 - $354,000).

In addition to management fees, the Partnership reimburses CMP for any reasonable expenses or costs it incurs, or disbursements it makes on behalf of the Partnership in connection with its duties as General Partner and property manager (e.g., payroll, advertising, insurance and support services, etc.). Out-of-pocket costs were $490,000 during the period ended March 31, 2010 (2009 - $422,000). These amounts are included in cost of operations and administrative expense.

The Partnership also reimbursed CMP for out-of-pocket internal acquisition and construction management costs of $14,000 during the period ended March 31, 2010 (2009 - $46,000). These amounts are capitalized to properties under development.

These transactions are in the normal course of operations and are measured at the exchange amount which represents the consideration established and agreed to by the related parties.

As at March 31, 2010, the Partnership owed $1,154,000 to CMP (2009 - $276,000). These amounts are included in accounts payable and accrued liabilities.

## 5. COMMITMENTS AND CONTINGENCIES

Property acquisition and development costs are funded from the Partnership's cash flows from operations after distributions and from the Credit Facility. As at December 31, 2009, remaining purchase obligations to be incurred in connection with remaining development projects were approximately $7,587,000 and are expected to be incurred within one year.

In November 2006, the Partnership entered into a 40 year land lease agreement at a facility in Laval, Québec with an option to purchase the land in November 2016 for $1,550,000. The lease terminates in November. Future minimum lease payments are as follows:

| | $ |
|---|---|
| 2010 | **99,000** |
| 2011 | **132,000** |
| 2012 | **132,000** |
| 2013 | **132,000** |
| 2014 | **132,000** |
| Thereafter | **5,283,000** |
| Total | **5,910,000** |

Due to the size, complexity and nature of the Partnership's operations, various legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on the Partnership's consolidated financial position or results of operations.

The Partnership had outstanding letters of credit of $848,000 as collateral for performance obligations as at March 31, 2010.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2010

The Ministry of Transportation of British Columbia has notified the Partnership that it intends to expropriate one of the Partnership's facilities for highway right-of-way purposes by August 15, 2010. The net carrying value of this property was $700,000 as at March 31, 2010. The Ministry and the Partnership's management are negotiating the compensation due pursuant to the Expropriation Act.

## 6. SUBSEQUENT EVENTS

On May 4, 2010, PS Canada Company ULC, a company indirectly controlled by B. Wayne Hughes and Tamera L. Gustavson, announced that it intends to make an offer to acquire all of the units of the Partnership not already owned by PS Canada or its affiliates at a price of $17.00 per Unit in cash. PS Canada and its affiliates currently hold 5,129,717 Units, representing approximately 56.7% of the outstanding Units.

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