

**PUBLIC STORAGE  
CANADIAN PROPERTIES**

**2004  
THIRD QUARTER REPORT**

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

Dated November 3, 2004

Public Storage Canadian Properties ("PSCP" or the "Partnership") reported net income of \$1,843,000 or \$0.38 per partnership unit for the three months ended September 30, 2004 compared to \$1,971,000 or \$0.41 per partnership unit for the same period in 2003. Net income was \$5,061,000 or \$1.05 per partnership unit for the nine months ended September 30, 2004 compared to \$5,716,000 or \$1.19 per partnership unit for the same period in 2003. The decreases are largely attributable to decreases in net operating income derived from property operations.

### Property Operations

The Partnership derives substantially all of its income from the ownership of sixteen self-storage facilities. Thirteen facilities are located in the province of Ontario and three facilities are located in the province of British Columbia.

Economic and industry factors, specifically increased competition from newer facilities in the Toronto market, remain unchanged.

The following table summarizes the pre-depreciation operating results of the Partnership's facilities:

	Three months ended September 30,			Nine months ended September 30,		
	2004	2003	Change	2004	2003	Change
Rental income.....	\$ 3,999,000	\$ 3,890,000	2.8%	\$11,316,000	\$11,530,000	-1.9%
Less: cost of operations.....	1,364,000	1,154,000	18.2%	3,875,000	3,499,000	10.7%
Less: management fees paid to an affiliate.....	240,000	233,000	3.0%	679,000	692,000	-1.9%
Net operating income.....	\$ 2,395,000	\$ 2,503,000	-4.3%	\$ 6,762,000	\$ 7,339,000	-7.9%
Gross margin <sup>(1)</sup> .....	59.9%	64.3%		59.8%	63.7%	
Weighted average for period:						
Occupancy .....	93.0%	89.9%		88.4%	88.8%	
Realized annual rent per square foot <sup>(2)</sup> .....	\$13.93	\$14.03	-0.7%	\$13.83	\$14.02	-1.4%

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

(2) 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.

Occupancy levels showed signs of recovery. Occupancy levels at the end of each quarter were as follows:

	<u>2004</u>	<u>2003</u>	<u>Change</u>
March 31 .....	83.9%	87.2%	-3.3%
June 30.....	93.0%	90.8%	2.2%
September 30 .....	92.2%	87.5%	4.7%
December 31.....		81.6%	

The improvement in occupancy levels is largely attributable to various pricing, marketing, facility and training initiatives implemented by management during 2004 as outlined below:

- ? Aggressively priced rental rates at locations where competition from newer facilities exists;
- ? Offered a "\$1 for first month move-in" promotion;
- ? Invested in capital expenditures (e.g., new roofs, driveway asphalt, painting and gates) and extensive repairs to improve the function and aesthetics of older facilities;
- ? Invested in new security system enhancements to provide facilities with individually alarmed units and property-wide video surveillance. These security attributes are standard on newer facilities built by competitors but were not available when the Partnership's facilities were built approximately twenty five years ago; and
- ? Engaged consultants to provide a sales-oriented customer service and training program for property managers.

Rental income by geographic region is summarized as follows:

	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>2004</u>	<u>2003</u>	<u>Change</u>
Rental income:						
British Columbia.....	\$ 637,000	\$ 594,000	7.2%	\$ 1,779,000	\$ 1,736,000	2.5%
Ontario .....	3,362,000	3,296,000	2.0%	9,537,000	9,794,000	-2.6%
	<u>\$ 3,999,000</u>	<u>\$ 3,890,000</u>	2.8%	<u>\$11,316,000</u>	<u>\$11,530,000</u>	-1.9%

Rental income reflects the impact of promotional discounts (primarily the \$1 for first month move-in promotion) referred to above. Discounts totaled \$480,000 and \$1,324,000 for the three and nine months ended September 30, 2004 compared to \$393,000 and \$922,000 for the same periods in the prior year.

Cost of operations by major category is summarized as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2004	2003	Change	2004	2003	Change
Property taxes .....	\$ 458,000	\$ 421,000	8.8%	\$ 1,310,000	\$ 1,262,000	3.8%
Payroll .....	444,000	400,000	11.0%	1,319,000	1,195,000	10.4%
Repairs and maintenance .....	172,000	123,000	39.8%	450,000	306,000	47.1%
Utilities .....	68,000	45,000	48.9%	227,000	212,000	6.6%
Advertising .....	66,000	51,000	29.4%	179,000	206,000	-13.1%
Insurance .....	48,000	46,000	4.3%	140,000	129,000	8.5%
Other .....	108,000	68,000	58.8%	251,000	189,000	32.8%
	<u>1,364,000</u>	<u>1,154,000</u>	18.2%	<u>3,875,000</u>	<u>3,499,000</u>	10.7%
Management fees paid to an affiliate .....	240,000	233,000	3.0%	679,000	692,000	-1.9%
Total expenses .....	<u>\$ 1,604,000</u>	<u>\$ 1,387,000</u>	15.6%	<u>\$ 4,554,000</u>	<u>\$ 4,191,000</u>	8.7%

- ? Property taxes are accrued based upon estimates and historical trends. The increase is due to property reassessment values.
- ? Payroll expense reflects an increase in hours worked at the facilities and increased incentives to property personnel related to the increase in rental activity and improved occupancy levels. Payroll expense also includes \$17,000 in non-recurring severance payments paid in the second quarter of 2004.
- ? Repairs and maintenance are expensed as incurred and do not include capital improvements to real estate facilities. The increase is due to various maintenance initiatives referred to above and is expected to continue at similar levels during the remainder of the year and 2005.
- ? Advertising expense reflects increased yellow pages costs offset by cost savings associated with a new telephone reservation system implemented at the end of the third quarter of 2003.
- ? Other expenses include non-recurring costs of approximately \$40,000 associated with a sales-oriented customer service and training program and professional fees of approximately \$50,000 associated with two litigation matters in 2004.
- ? The Partnership pays a management fee to an affiliate equal to 6% of gross rental revenues (as defined in the management agreement).

### **Depreciation and Amortization**

Depreciation and amortization expense was \$493,000 and \$1,420,000 for the three and nine months ended September 30, 2004 compared to \$469,000 and \$1,397,000 for the same periods in the prior year. The increase is due to depreciation on recent capital expenditures.

### **Administrative**

Administrative expense was \$74,000 and \$305,000 for the three and nine months ended September 30, 2004 compared to \$72,000 and \$255,000 for the same periods in the prior year. Administrative expense consists primarily of personnel costs for accounting and investor services and other legal and professional fees. The increase is due primarily to an increase in public company costs and fees associated with the credit facility.

## **Interest and Other Income**

Interest and other income were \$15,000 and \$24,000 for the three and nine months ended September 30, 2004 compared to \$9,000 and \$29,000 for the same periods in the prior year. Interest and other income during the third quarter of 2004 include temporary parking, billboard and rental fees at one of the Partnership's facilities that is under construction.

## **Liquidity and Capital Resources**

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 \$28 million credit facility with the Bank of Montreal for general corporate purposes and to provide short term financing for property acquisitions and developments. Net cash provided by operating activities for the nine months ended September 30, 2004 and 2003 was \$5,646,000 and \$7,170,000, respectively. The decrease is largely attributable to a decrease in net income and the payment of liabilities that existed at December 31, 2003.

### *Capital Improvements*

The Partnership budgeted approximately \$1,100,000 in capital expenditures (e.g., new roofs, driveway asphalt, painting and gates) in 2004 to improve the function and aesthetics of the older facilities. The Partnership also budgeted an additional \$1,600,000 in security system enhancements to provide its older facilities with individually alarmed units and property-wide video surveillance. Management believes these improvements are necessary to remain competitive with newer facilities in the marketplace. During the nine months ended September 30, 2004, the Partnership incurred \$1,720,000 in capital improvements relating to these items and expects to incur the remaining unused portion of approximately \$1,000,000 by the end of the year.

### *Credit Facility*

As at September 30, 2004, the Partnership had an outstanding balance of \$5,400,000 on its credit facility. The credit facility bears interest at the Banker's Acceptance rate plus an applicable margin ranging from 0.75% to 1.50% and expires on June 30, 2005.

### *Property acquisitions and developments*

In December 2003, the Partnership acquired a 2.1 acre property for approximately \$1,715,000 in Surrey, British Columbia for development into a mini-warehouse facility. The total cost is expected to be approximately \$6,500,000. The facility is expected to open in the first quarter of 2005.

In July 2004, The Partnership acquired a 1.3 acre property for approximately \$2,840,000 in Vancouver, British Columbia for development into a mini-warehouse facility. The total cost is expected to be approximately \$10,260,000. The facility is expected to open in the third quarter of 2005.

These are the first development properties acquired by the Partnership since 1987 and will be funded by the Partnership's cash reserves and credit facility. Financing of these developments is not expected to reduce the current level of distributions to unitholders.

### *Distributions*

The general partner analyzes the distribution level on a quarterly basis. Among the items considered when determining distribution levels are historical property operations, current cash reserves and obligations of the Partnership, including debt, expected capital expenditures and other factors. The Partnership distributed \$6,509,000 (\$1.35 per unit) and \$6,510,000 (\$1.35 per unit) during the nine months ended September 30, 2004 and 2003, respectively. The Partnership also declared a distribution of \$0.45 per partnership unit to be paid on December 31, 2004 to unitholders of record at the close of business on December 15, 2004. The Partnership expects to continue to make quarterly distributions at these levels.

**Funds from Operations (“FFO”) and Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”)**

FFO and EBITDA are supplementary performance measures for real estate companies used by investors and analysts. These non-generally accepted accounting principles (“GAAP”) financial measures do not have any standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Many investors and analysts consider FFO and EBITDA to be measures of the performance of real estate companies. FFO is equal to net income computed in accordance with GAAP plus depreciation and amortization. EBITDA is equal to earnings before interest income, interest expense, taxes, depreciation and amortization. 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 table calculates FFO and EBITDA for the three and nine months ended September 30, 2004 and 2003:

	Three months ended September 30,			Nine months ended September 30,		
	2004	2003	Change	2004	2003	Change
<b><u>Calculation of FFO:</u></b>						
Net income .....	\$ 1,843,000	\$ 1,971,000		\$ 5,061,000	\$ 5,716,000	
Depreciation and amortization .....	493,000	469,000		1,420,000	1,397,000	
FFO .....	<u>\$ 2,336,000</u>	<u>\$ 2,440,000</u>	-4.3%	<u>\$ 6,481,000</u>	<u>\$ 7,113,000</u>	-8.9%
Weighted average number of partnership units .....	4,821,430	4,821,430		4,821,430	4,821,430	
FFO per partnership unit .....	\$0.48	\$0.51	-5.9%	\$1.34	\$1.48	-9.5%
<b><u>Calculation of EBITDA:</u></b>						
Net income .....	\$ 1,843,000	\$ 1,971,000		\$ 5,061,000	\$ 5,716,000	
Depreciation and amortization .....	493,000	469,000		1,420,000	1,397,000	
Less: interest income.....	(15,000)	(9,000)		(24,000)	(29,000)	
EBITDA.....	<u>\$ 2,321,000</u>	<u>\$ 2,431,000</u>	-4.5%	<u>\$ 6,457,000</u>	<u>\$ 7,084,000</u>	-8.9%
Weighted average number of partnership units .....	4,821,430	4,821,430		4,821,430	4,821,430	
EBITDA per partnership unit .....	\$0.48	\$0.50	-4.0%	\$1.34	\$1.47	-8.8%

## Consolidated Balance Sheets

	September 30, 2004	December 31, 2003
	(Unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 352,000	\$ 1,056,000
Real estate facilities:		
Buildings, equipment and land improvements	38,013,000	36,293,000
Land	12,986,000	12,986,000
	<u>50,999,000</u>	<u>49,279,000</u>
Less: accumulated depreciation	(23,814,000)	(22,394,000)
	<u>27,185,000</u>	<u>26,885,000</u>
Construction in progress	5,346,000	1,825,000
Rent and other receivables	265,000	245,000
Other assets	191,000	91,000
	<u>\$ 33,339,000</u>	<u>\$ 30,102,000</u>

### Liabilities and Partners' Equity

Accounts payable	\$ 246,000	\$ 984,000
Advanced payments from renters	448,000	425,000
Amounts due under credit facility	5,400,000	-
Partners' equity, 4,993,731 units authorized; 4,821,430 units issued and outstanding	<u>27,245,000</u>	<u>28,693,000</u>
	<u>\$ 33,339,000</u>	<u>\$ 30,102,000</u>

See accompanying notes.

---

## Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<b>Revenue:</b>				
Rental income	\$ 3,999,000	\$ 3,890,000	\$ 11,316,000	\$ 11,530,000
Interest and other income	15,000	9,000	24,000	29,000
	4,014,000	3,899,000	11,340,000	11,559,000
<b>Costs and expenses:</b>				
Cost of operations	1,364,000	1,154,000	3,875,000	3,499,000
Management fees paid to an affiliate	240,000	233,000	679,000	692,000
Depreciation and amortization	493,000	469,000	1,420,000	1,397,000
Administrative	74,000	72,000	305,000	255,000
	2,171,000	1,928,000	6,279,000	5,843,000
<b>Net income</b>	<b>\$ 1,843,000</b>	<b>\$ 1,971,000</b>	<b>\$ 5,061,000</b>	<b>\$ 5,716,000</b>
Net income per partnership unit	\$ 0.38	\$ 0.41	\$ 1.05	\$ 1.19
Weighted average partnership units outstanding	4,821,430	4,821,430	4,821,430	4,821,430

See accompanying notes.

**Consolidated Statements of Partner's Equity**  
(Unaudited)

	Nine Months Ended September 30,	
	2004	2003
Balance at beginning of period	\$ 28,693,000	\$ 30,038,000
Net Income	5,061,000	5,716,000
Distributions to partners	(6,509,000)	(6,510,000)
Balance at end of period	<u>\$ 27,245,000</u>	<u>\$ 29,244,000</u>

See accompanying notes.

---

## Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2004	2003
<b>Cash flows provided by operating activities:</b>		
Net income	\$ 5,061,000	\$ 5,716,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,420,000	1,397,000
Increase in rent and other receivables	(20,000)	(212,000)
(Increase) decrease in other assets	(100,000)	13,000
(Decrease) increase in accounts payable	(738,000)	266,000
Increase (decrease) in advanced payments from renters	23,000	(10,000)
Total adjustments	585,000	1,454,000
Net cash provided by operating activities	5,646,000	7,170,000
<b>Cash flows from investing activities:</b>		
Capital improvements to real estate facilities	(1,720,000)	(590,000)
Construction of new facilities	(3,521,000)	-
Net cash used in investing activities	(5,241,000)	(590,000)
<b>Cash flows from financing activities:</b>		
Borrowings from credit facility	5,400,000	-
Distributions to partners	(6,509,000)	(6,510,000)
Net cash used in financing activities	(1,109,000)	(6,510,000)
Net decrease in cash and cash equivalents	(704,000)	70,000
Cash and cash equivalents, beginning of period	1,056,000	2,646,000
Cash and cash equivalents, end of period	\$ 352,000	\$ 2,716,000

See accompanying notes.

## **Notes to Consolidated Financial Statements**

(Unaudited)  
September 30, 2004

1. These unaudited consolidated financial statements of Public Storage Canadian Properties (“PSCP” or the “Partnership”) should be read in conjunction with the Partnership’s audited financial statements and related notes for the year ended December 31, 2003.
  2. These interim financial statements of the Partnership have not been reviewed by our independent auditors.
  3. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of only normal accruals, necessary to present fairly the Partnership’s financial position and results of operations for the respective periods.
  4. The results of operations for the three months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year.
  5. The Partnership has a \$28 million credit facility with a commercial bank. The credit facility bear interest at the Banker’s Acceptance rate plus an applicable margin ranging from 0.75% to 1.50% and expires on June 30, 2005.
-

## Public Storage Canadian Properties Partnership Highlights

	Q103	Q203	Q303	Q403	2003 Total	Q104	Q204	Q304	2003 YTD	2004 YTD
<b>Operations</b>										
Average occupancy	87.1%	89.4%	89.8%	82.6%	87.2%	82.5%	89.6%	93.0%	88.8%	88.4%
Annualized realized rental rates <sup>(1)</sup>	\$14.37	\$13.69	\$14.03	\$14.69	\$14.18	\$14.17	\$13.41	\$13.97	\$14.02	\$13.84
Rental income	\$3,862,000	3,778,000	3,890,000	\$3,745,000	\$15,275,000	\$3,609,000	\$3,708,000	\$3,999,000	\$11,530,000	\$11,316,000
Percent change from prior year	1.7%	-2.6%	-5.0%	-5.9%	-3.0%	-6.6%	-1.9%	2.8%	-2.0%	-1.9%
Net income	\$1,940,000	\$1,805,000	\$1,971,000	\$1,618,000	\$7,334,000	\$1,687,000	\$1,531,000	\$1,843,000	\$5,716,000	\$5,061,000
Net income per Unit	\$0.40	\$0.37	\$0.41	\$0.34	\$1.52	\$0.35	\$0.32	\$0.38	\$1.19	\$1.5
Percent change from prior year	0.8%	-11.9%	-12.8%	-26.1%	-12.8%	-13.0%	-13.5%	-7.3%	-7.8%	-11.5%
Funds from Operations (FFO) <sup>(2)</sup>	\$2,403,000	\$2,270,000	\$2,440,000	\$2,168,000	\$9,281,000	\$2,135,000	\$2,010,000	\$2,336,000	\$7,113,000	\$6,481,000
FFO Per Unit	\$0.50	\$0.47	\$0.51	\$0.45	\$1.92	\$0.44	\$0.42	\$0.48	\$1.48	\$1.34
Percent change from prior year	1.1%	-9.6%	-8.9%	-18.2%	-9.4%	-12.0%	-10.6%	-5.9%	-5.7%	-9.5%
EBITDA <sup>(2)</sup>	\$2,393,000	\$2,260,000	\$2,431,000	\$2,159,000	\$9,243,000	\$2,129,000	\$2,007,000	\$2,321,000	\$7,084,000	\$6,457,000
EBITDA per Unit	\$0.50	\$0.47	\$0.50	\$0.45	\$1.92	\$0.44	\$0.42	\$0.48	\$1.47	\$1.34
Percent change from prior year	1.0%	-7.8%	-10.7%	-18.2%	-9.4%	-12.0%	-10.6%	-4.0%	-5.8%	-8.8%
<b>Stock Price</b>										
Close	\$20.06	\$22.25	\$21.90	\$22.15	\$22.15	\$22.69	\$20.80	\$20.10	\$21.90	\$20.10
High	20.50	22.25	23.40	23.00	23.40	23.00	22.69	\$21.11	23.40	\$21.11
Low	19.40	19.72	21.25	20.85	19.40	20.25	19.65	\$20.00	19.40	\$20.00
Distribution per Unit	\$0.45	\$0.45	\$0.45	\$0.45	\$1.80	\$0.45	\$0.45	\$0.45	\$1.35	\$1.35

(1) Realized rent per square foot represents the actual rental revenue earned per occupied square foot.

(2) FFO and EBITDA are supplementary performance measures for real estate companies used by investors and analysts. These non-GAAP financial measures do not have any standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. FFO is equal to net income computed in accordance with GAAP plus depreciation and amortization. EBITDA is equal to earnings before interest income, interest expense, taxes, depreciation and amortization. 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 its ability to pay distributions.

Copies of the Partnership's financial statements, tax reporting information, press releases, annual information form and other information can be obtained from either the Partnership's web site ([www.publicstoragecanada.com](http://www.publicstoragecanada.com)) or from the System for Electronic Document Analysis and Retrieval ("SEDAR") web site ([www.sedar.com](http://www.sedar.com)). Additionally, the above mentioned information can be obtained from the Partnership by contacting the Partnership's Investor Communication Department at (866) 772-2623, provided the Partnership may require the payment of reasonable charges where the individual requesting the information is not a unitholder of the Partnership.

**Web site**

[www.publicstoragecanada.com](http://www.publicstoragecanada.com)

**Partnership's Corporate Office**  
Investor Communications Department  
23805 Stuart Ranch Road, Suite 220  
Malibu, California 90265  
(866) PS-CANADA  
(866) 772-2623

**Transfer Agent and Registrar**  
CIBC Mellon Trust Co.  
Toronto, Ontario  
(800) 387-0825

**Partnership's Canadian Office**  
Suite 6600  
1000 King Street West  
1 First Canadian Place  
Toronto, Ontario M5X 1B8