

PUBLIC STORAGE CANADIAN PROPERTIES
(A Limited Partnership Governed By
The Limited Partnerships Act of Ontario)

2006
THIRD QUARTER REPORT

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

Dated November 10, 2006

Forward Looking Statements

This discussion of the consolidated 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 the 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 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 mini-warehouse 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 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 "rent - up" of new 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 credit facilities and the Partnership Agreement contain restrictions that limit the Partnership's flexibility in operating the business;
- 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 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; and
- the Hughes Family (as defined below) controls the Partnership.

This list is not exhaustive of the factors that may 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 of 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.

General

Public Storage Canadian Properties is a publicly held limited partnership formed under the *Limited Partnerships Act* (Ontario). The Partnership owns twenty-one self-storage facilities. Thirteen facilities are located in Ontario, five facilities are located in British Columbia, one facility is located in Alberta and two facilities are located in Québec. In addition, the Partnership owns a parcel of land in Toronto, Ontario for development into a self-storage facility.

The facilities are operated under the trade name "Public Storage" and are managed by the General Partner pursuant to a separate property management agreement. The General Partner of the Partnership is Canadian Mini-Warehouse Properties Limited ("CMP" or the "General Partner"). All of the shares of CMP are beneficially owned by B. Wayne Hughes and certain members of his family (collectively, the "Hughes Family"). Entities controlled by the Hughes Family beneficially owned 3,896,942 units of the Partnership ("Units") including the Units owned by CMP, or approximately 53.9% of the outstanding Units as at September 30, 2006.

On March 1, 2006, construction of a new facility located in the city of Montréal, Québec was completed and the facility opened for business. See "New" Facility Acquisitions and Developments. This is the first property owned by the Partnership in the province of Québec. Unitholders may be required to file a Québec tax return. Unitholders should consult their tax advisors.

On April 6, 2006, the holders of Units of the Partnership (the "Unitholders") approved the issuance of up to a maximum of 2,410,715 Units by way of a rights offering (the "Rights Offering"). The Unitholders also approved amendments relating to the provisions of the limited partnership agreement of the Partnership (the "Partnership Agreement") with respect to the limitations on debt financing, the allocation of net income and losses and the appointment of auditors. In addition, Unitholders other than the Hughes Family approved the acquisition of two development properties (the "Additional Properties") and one operating mini-warehouse property from entities controlled by the Hughes Family.

On June 2, 2006, the Partnership completed the Rights Offering. An aggregate of 2,410,715 Units were issued in connection with the Rights Offering for aggregate net proceeds of approximately \$47 million. Eighty-seven percent of the rights issued to Unitholders were exercised, resulting in the issuance of 2,092,146 Units. The remaining 318,569 Units were issued to holders of rights who not only exercised their rights but also elected to subscribe for additional units available as a result of unexercised rights. Proceeds from the Rights Offering were used to repay amounts outstanding under the Partnership's credit facility (the "Credit Facility").

On June 16, 2006, the Partnership acquired a self-storage facility located at 5605 Côte-de-Liesse in the city of St. Laurent, Québec. See "New" Facility Acquisitions and Developments.

On July 27, 2006, the newly constructed facility located in the city of Vancouver, British Columbia opened for business. See "New" Facility Acquisitions and Developments.

On November 2, 2006, the Partnership acquired a 5.03 acre property located at 28 Estate Drive in Toronto, Ontario. See Acquisition of Additional Properties.

Outstanding Securities

As at November 10, 2006, there were 7,232,145 Units outstanding.

Critical Accounting Estimates

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.

Operating Results

The Partnership reported net income of \$2,062,000 or \$0.29 per Unit for the three months ended September 30, 2006 compared to \$1,947,000 or \$0.40 per Unit for the same period in 2005. Net income was \$5,613,000 or \$0.95 per Unit for the nine months ended September 30, 2006 compared to \$5,488,000 or \$1.14 per Unit for the same period in 2005. The increases in total net income were due to growth in property operations from both the “Same Store” and “New” Facilities, as defined below, offset by an increase in amortization associated with “New” Facilities placed in service. The decreases in net income per Unit were due primarily to an increase of 2,410,715 Units in the calculation of the number of weighted average Units outstanding in connection with the Rights Offering on June 2, 2006. Upcoming quarters will continue to reflect the dilutive impact of an additional 2,410,715 Units in the calculation of the number of weighted average Units outstanding.

Property Operations

The Partnership derives substantially all of its income from the ownership of self-storage facilities. Economic and industry factors, specifically increased competition from newer facilities in the Toronto market, remain unchanged from those described in the Annual Report of the Partnership. The following table summarizes the net operating income (“NOI”) of the properties for the three and nine months ended September 30, 2006. NOI is equal to rental income less cost of operations and management fees paid to CMP before amortization. This financial measure is not a generally accepted accounting principles (“GAAP”) financial measure and does not have any standardized meanings prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

	Three months ended September 30,			Nine months ended September 30,		
	2006	2005	Change	2006	2005	Change
<u>Rental income:</u>						
“Same Store” facilities (a)	\$ 4,370,000	\$ 4,276,000	2.2%	\$ 12,766,000	\$ 12,267,000	4.1%
“New” facilities (b)	1,103,000	194,000	468.6%	1,801,000	285,000	531.9%
	<u>5,473,000</u>	<u>4,470,000</u>	22.4%	<u>14,567,000</u>	<u>12,552,000</u>	16.1%
<u>Cost of operations:</u>						
“Same Store” facilities	1,256,000	1,269,000	(1.0%)	3,863,000	3,758,000	2.8%
“New” facilities	468,000	155,000	201.9%	986,000	278,000	254.7%
	<u>1,724,000</u>	<u>1,424,000</u>	21.1%	<u>4,849,000</u>	<u>4,036,000</u>	20.1%
<u>Management fees: (c)</u>						
“Same Store” facilities	262,000	257,000	1.9%	766,000	736,000	4.1%
“New” facilities	65,000	12,000	441.7%	107,000	17,000	529.4%
	<u>327,000</u>	<u>269,000</u>	21.6%	<u>873,000</u>	<u>753,000</u>	15.9%
<u>Net Operating Income:</u>						
“Same Store” facilities	2,852,000	2,750,000	3.7%	8,137,000	7,773,000	4.7%
“New” facilities	570,000	27,000	2,011.1%	708,000	(10,000)	7,180.0%
	<u>\$ 3,422,000</u>	<u>\$ 2,777,000</u>	23.2%	<u>\$ 8,845,000</u>	<u>\$ 7,763,000</u>	13.9%

- (a) “Same Store” facilities are facilities that have been owned and operated at a mature, stabilized occupancy level since January 1, 2004. 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. As at September 30, 2006, the “Same Store” facilities consist of sixteen facilities that have been owned and operated by the Partnership since its inception and contain approximately 1,235,000 net rentable square feet and 11,181 storage units.
- (b) “New” facilities are properties that have been recently acquired and/or developed by the Partnership. The Partnership reports the performance of the “New” facilities separately from the performance of the Partnership’s “Same Store” facilities. Generally, these facilities are still in their initial “fill-up” stage and do not provide a meaningful comparison to prior periods. The Partnership will reclassify these properties to “Same Store” facilities once they have been opened for three years as of January 1 of the earliest period presented. As at September 30, 2006, “New” facilities contain approximately 513,000 net rentable square feet and 5,203 storage units. For further information regarding “New” facilities, see “New” Facility Acquisitions and Developments” below.
- (c) Management fees are payable to CMP pursuant to the terms of the amended and restated management agreement between the Partnership and CMP dated as of 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.

“Same Store” Facilities

The following table summarizes the pre-amortization operating results of the Partnership’s “Same Store” facilities.

	Three months ended September 30,			Nine months ended September 30,		
	2006	2005	Change	2006	2005	Change
Rental income (a)	\$4,370,000	\$4,276,000	2.2%	\$ 12,766,000	\$12,267,000	4.1%
Cost of operations:						
Property taxes (b).....	476,000	470,000	1.3%	1,435,000	1,274,000	12.6%
Direct payroll.....	343,000	337,000	1.8%	1,023,000	1,021,000	0.2%
Repairs and maintenance (c)	100,000	107,000	(6.5%)	370,000	376,000	(1.6%)
Utilities (d).....	66,000	68,000	(2.9%)	241,000	277,000	(13.0%)
Advertising (e).....	52,000	48,000	8.3%	151,000	140,000	7.9%
Insurance.....	43,000	40,000	7.5%	128,000	128,000	0.0%
Other (f).....	176,000	199,000	(11.6%)	515,000	542,000	(5.0%)
	<u>1,256,000</u>	<u>1,269,000</u>	(1.0%)	<u>3,863,000</u>	<u>3,758,000</u>	2.8%
Management fees	<u>262,000</u>	<u>257,000</u>	1.9%	<u>766,000</u>	<u>736,000</u>	4.1%
Net operating income	<u>\$2,852,000</u>	<u>\$2,750,000</u>	3.7%	<u>\$ 8,137,000</u>	<u>\$ 7,773,000</u>	4.7%
Gross margin (g).....	65.3%	64.3%		63.7%	63.4%	
Weighted average for period:						
Occupancy	87.3%	90.0%		87.5%	88.6%	
Realized annual rent per square foot (h).....	\$16.21	\$15.39	5.3%	\$15.75	\$14.96	5.3%

- (a) The increases in rental income, net of discounts, were due primarily to rental rate increases implemented on April 1, 2006 and lower discounts given. Discounts were \$250,000 and \$952,000 for the three and nine months ended September 30, 2006 compared to \$272,000 and \$969,000 for the same periods in the prior year.
- (b) Property taxes for the nine months ended September 30, 2005 included a tax refund of \$134,000 from the City of Toronto. Excluding this tax refund in the prior period, property taxes have increased 2.1% for the nine months ended September 30, 2006.
- (c) The decreases in repairs and maintenance were due to controlled levels of discretionary spending.
- (d) The decrease in utilities expense for the nine months ended September 30, 2006 was due to a mild winter season compared to the same period in the prior year.
- (e) The increases in advertising expense were due to an increase in call centre expenses and the purchase of additional promotional banners.
- (f) The decreases in other expenses were due to a reduction in the cost of supervising and administrative costs.
- (g) Gross margin is computed by dividing property net operating income by rental income.
- (h) 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.

Rental income of the Partnership's "Same Store" facilities by geographic region is summarized as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2006	2005	Change	2006	2005	Change
Rental income:						
British Columbia	\$ 737,000	\$ 696,000	5.9%	\$ 2,106,000	\$ 2,052,000	2.6%
Ontario.....	3,633,000	3,580,000	1.5%	10,660,000	10,215,000	4.4%
	<u>\$ 4,370,000</u>	<u>\$ 4,276,000</u>	2.2%	<u>\$12,766,000</u>	<u>\$12,267,000</u>	4.1%

Amortization

Amortization expense was \$1,188,000 and \$2,569,000 for the three and nine months ended September 30, 2006, respectively, compared to \$608,000 and \$1,687,000 for the same periods in the prior year. The increases were due primarily to amortization expense associated with the "New" facilities placed in service

Administrative

Administrative expense consists primarily of professional fees, accounting personnel, reporting issuer costs and credit facility fees not associated with amounts outstanding. Administrative expense was \$111,000 and \$342,000 for the three and nine months ended September 30, 2006, respectively, compared to \$78,000 and \$322,000 for the same periods in the prior year. The increases were due primarily to higher professional fees.

Interest and Other Income

Interest and other income include interest received on cash balances. Interest and other income were \$49,000 and \$72,000 for the three and nine months ended September 30, 2006, respectively, compared to \$8,000 and \$17,000 for the same periods in the prior year. The increases in interest income were due to higher cash balances and interest rates.

Gain on Sale of Land

In June 2006, the Partnership sold a parcel of excess land in Calgary, Alberta for net proceeds of \$760,000. The Partnership recognized a gain of \$137,000 during the nine months ended September 30, 2006.

Interest Expense

Interest expense was \$110,000 (net of nil capitalized to construction projects) and \$530,000 (net of \$268,000 capitalized to construction projects) for the three and nine months ended September 30, 2006, respectively, compared to \$152,000 (net of \$79,000 capitalized to construction projects) and \$283,000 (net of \$200,000 capitalized to construction projects) for the same periods in the prior year. Interest expense for the three and nine months ended September 30, 2006 includes interest expense associated with the assumption of a 7.879% mortgage note payable in connection with the acquisition of the facility located at 5605 Côte-de-Liesse, St. Laurent, Québec.

The Partnership finances its developments through its \$35 million revolving Credit Facility and capitalizes certain interest expense incurred during the period a project is being developed and constructed. No interest was capitalized during the three months ended September 30, 2006 since the net proceeds from the rights offering were used to paydown the credit facility. Therefore, the weighted average borrowing rate on the Credit Facility was nil and 5.14% for the three and nine months ended September 30, 2006, respectively, compared to 3.82% and 3.65% for the same periods in the prior year.

Liquidity and Capital Resources

The Partnership had \$2,198,000 in cash and cash equivalents as at September 30, 2006. 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 \$35 million credit facility with a commercial bank for general corporate purposes and to provide short term financing for property acquisitions and developments. Net cash provided by operating activities was \$7,356,000 for the nine months ended September 30, 2006 compared to \$6,890,000 for the same period in the prior year. The increase was due primarily to cash flows generated from the "New" facilities.

Capital Improvements

The Partnership budgeted approximately \$1,215,000 in capital expenditures (e.g., new roofs, driveway asphalt, painting and gates) in 2006 to improve the function and aesthetics of the older facilities. Management believes these improvements are necessary to remain competitive with newer facilities in the marketplace. During the nine months ended September 30, 2006, the Partnership invested \$713,000 in capital improvements relating to these items and expects to incur the remaining unused portion of the amount it has budgeted for capital expenditures of approximately \$502,000 by the end of the year.

Credit Facility

In July 2006, the Partnership amended and extended its credit agreement with the Bank of Montreal. The new \$35 million revolving Credit Facility matures in July 2009. At the Partnership's option, the rate of interest charged is equal to either (i) the Prime Rate or (ii) a rate equal to the Banker's Acceptance Rate plus an applicable margin of 0.875% (5.21% as at September 30, 2006). In addition, the Partnership is required to pay a standby fee equal to 0.125% based on the unused portion of the Credit Facility. As at September 30, 2006, the Partnership had no outstanding balance on the Credit Facility.

Under the terms of the Credit Facility, the Partnership is required to (i) maintain a senior funded debt ratio (as defined) of not greater than 4.50 to 1.00 and (ii) maintain a tangible net worth (as defined) of \$60,000,000. As at September 30, 2006, the Partnership was in compliance with the terms of the Credit Facility.

Property acquisitions and development costs are funded from the Partnership's cash flows from operations after distributions and from its credit facility. As at September 30, 2006, remaining costs to be incurred in connection with the acquisition of additional properties approved by the Unitholders on April 6, 2006 were approximately \$20,434,000.

On April 6, 2006, the Unitholders passed an extraordinary resolution amending the Partnership Agreement relating to the limitations on debt financing. The total amount of all secured and unsecured debt of the Partnership (the "Borrowing Limit") was raised from four to seven times earnings of the Partnership before interest, taxes, depreciation and amortization for the twelve months ended the immediately preceding financial quarter of the Partnership. Based on the new terms of the Partnership Agreement, the Borrowing Limit was approximately \$77 million as at September 30, 2006.

"New" Facility Acquisitions and Developments

The Partnership finances its property acquisitions and developments through its Credit Facility (See "Liquidity and Capital Resources – Credit Facility"). In addition, the Partnership reimburses CMP for out-of-pocket acquisition and construction costs. These costs are capitalized and included in construction in progress.

Harvest Hills Facility – Calgary, Alberta

In March 2005, the Partnership, through a wholly-owned subsidiary, acquired an existing self storage facility located adjacent to the Harvest Hills community of Calgary, Alberta. The Partnership acquired the facility from an unaffiliated third party for cash of \$9,000,000. The facility consists of one non-climate controlled one-storey building and one climate controlled two-storey building with approximately 74,000 net rentable square feet and 798 storage units. This was the first existing self storage facility acquired by the Partnership. The total acquisition cost of this facility including closing costs, rebranding costs and other related costs of acquisition was \$9,276,000. This is an existing facility which was recently constructed and opened for business in April 2004. As at September 30, 2006, this facility was 71.5% occupied.

Cloverdale Facility – Surrey, British Columbia

In April 2005, construction of a new facility located in the Cloverdale area of Surrey, British Columbia was completed and the facility opened for business. The facility is situated on a site which was acquired by the Partnership in December 2003 for \$1,715,000. The total cost to develop this facility (including cost of land) was approximately \$6,328,000. The facility consists of a two-storey climate controlled building with approximately 57,000 net rentable square feet and 699 storage units. As at September 30, 2006, this facility was 74.0% occupied.

Jean Pratt Facility – Montréal, Québec

In March 2006, construction of a mini-warehouse facility located in the city of Montréal, Québec was completed and the facility opened for business. The facility was converted from a three-storey general warehouse facility which was acquired by the Partnership in July 2005 for \$5,550,000. The total cost to develop this facility (including purchase price of existing property) was approximately \$8,567,000. The facility consists of a three-storey heated building with approximately 92,000 net rentable square feet and 950 storage units. As at September 30, 2006, this facility was 15.2% occupied.

Commercial & Powell Facility – Vancouver, British Columbia

On July 27, 2006, the newly constructed facility located in the city of Vancouver, British Columbia opened for business. The facility is situated on a site which was acquired by the Partnership in June 2004 for \$2,840,000. The total cost to develop this facility (including cost of land) was approximately \$11,470,000. The facility consists of a four-storey climate controlled building with approximately 74,000 net rentable square feet and 975 storage units. As at September 30, 2006, this facility was 15.0% occupied.

Rights Offering

On April 6, 2006, the Unitholders approved the issuance of up to a maximum of 2,410,715 Units by way of the Rights Offering. The Rights Offering provided the existing Unitholders of the Partnership that are Qualifying Persons (as defined below) with the right to purchase additional Units in the Partnership.

On June 2, 2006, the Partnership completed the Rights Offering. An aggregate of 2,410,715 Units were issued in connection with the Rights Offering for aggregate net proceeds of approximately \$47 million. Eighty-seven percent of the rights issued to Unitholders were exercised, resulting in the issuance of 2,092,146 Units. The remaining 318,569 Units were issued to holders of rights who not only exercised their rights but also elected to subscribe for additional units available as a result of unexercised rights. Proceeds from the Rights Offering were used to repay amounts outstanding under the Partnership's Credit Facility.

Acquisition of Additional Properties (the "Additional Properties")

On April 6, 2006, a majority of the Unitholders other than entities controlled by B. Wayne Hughes and members of his family approved the acquisition and/or development of three facilities that the Hughes Family had entered into agreements with the owners of such facilities or land. To date, the Partnership has acquired two of these three properties. The remaining property is expected to be leased to the Partnership with an option to purchase the land after 10 years.

These Additional Properties will be managed by the General Partner under the terms of the Partnership Agreement and a management agreement between the General Partner and the Partnership, pursuant to which the General Partner will manage these properties (and continue to manage the Partnership's other mini-warehouse properties) for a management fee of 6% of gross revenues from the operation of such properties. The Additional Properties are described below:

Côte-de-Liesse Facility – St. Laurent, Québec

In June 2006, the Partnership, through a wholly-owned subsidiary, acquired an existing self storage facility located at 5605 Côte-de-Liesse, St. Laurent, Québec. This property encompasses a mini-warehouse facility that is being operated from three buildings on the property with 216,000 net rentable square feet and 2,381 storage units. The acquisition cost of this facility was \$13,850,000 (less the assumption of a mortgage payable of \$5,676,000). Total cost to renovate and rebrand this facility is expected to be approximately \$1,202,000. As at September 30, 2006, this facility was 84.0% occupied.

Expectations respecting the rebranding cost of this facility are subject to various risks, including with respect to the availability and cost of construction materials and labour and there being limited costs, difficulties or delays related to obtaining construction and operating permits or as a result of adverse weather conditions. See "Forward-Looking Statements" on page 2.

Estate Drive – Toronto, Ontario

The “Estate Drive Property” is located at 28 Estate Drive in Toronto, Ontario. This property encompasses 5.03 acres of vacant land. The land was initially acquired by the Hughes Family in January 2006 for \$2,750,000. The total cost to develop this property (including the purchase price) into a mini-warehouse self-storage facility comprising 86,000 net rentable square feet and 962 units is expected to be approximately \$11,008,000. On November 2, 2006, the Partnership acquired this property from the “Hughes Family” for approximately \$3,929,000 at their cost (including interest expense, construction costs and other carrying costs actually incurred by the Hughes Family in respect of this property). Management is currently working to obtain the development permits necessary to construct a self-storage facility. This property is located near Highway 401 at Markham Road and offers excellent visibility to both the east and westbound traffic on Highway 401. The current zoning of this property will allow the Partnership to use it as a self-storage facility. This property is easily accessible and is located in close proximity to several new condominium developments. This facility is expected to open in the middle of 2007.

This property will be the Partnership’s first significant construction project in the Toronto market in many years and will require increased attention from management of the General Partner. The current estimate of the total cost to develop this property has been prepared without information on exact unit mix and architectural drawings and the actual costs may exceed the current estimate. Management’s plans and expectations respecting the acquisition and development of the Estate Drive Property are subject to various assumptions and risks. See “Forward-Looking Statements” on page 2.

Highway 13 – Laval, Québec

This property (the “Laval Property”) is located at the south east corner of Highway 13 and Notre Dame Blvd. in Laval, Québec. This property encompasses 3.4 acres of vacant land. The Partnership intends to enter into a land lease agreement with the current owner with an option to purchase the land after 10 years. The acquisition cost of the land is expected to be approximately \$1,550,000. The total cost to develop this property (including the purchase price) into a mini-warehouse self-storage facility comprising 84,000 net rentable square feet and 947 units is expected to be approximately \$9,426,000. This property is adjacent to a major destination shopping center featuring large retailers. The surrounding area has been significantly developed over the past five years and has a multitude of medium density housing. The high visibility of this property on Highway 13 in Laval, Québec, and easy access from the highway should help attract customers. This facility is expected to open in the middle of 2007.

This property will be the Partnership’s first significant ground-up construction project in the Montréal market and will require increased attention from management of the General Partner. The current estimate of the total cost to develop this facility has been determined without detailed construction drawings and the actual costs may exceed the current estimate. The current zoning of this property does not specifically permit the owner of this property to operate the property as a storage facility. An application to the City of Laval has been made to change the current zoning of this property to permit its use as a storage facility. The seller is required to obtain all the necessary zoning approvals before the closing of the purchase of this property and the Partnership will not close the purchase until all the zoning approvals have been obtained to the satisfaction of the General Partner. Management’s plans and expectations respecting the acquisition and development of the Laval Property are subject to various assumptions and risks. See “Forward-Looking Statements” on page 2.

Expectations respecting the cost to develop these facilities and the date each will be open are based on various assumptions and are subject to various risks, including with respect to the availability and cost of construction materials and labour and there being limited costs, difficulties or delays related to obtaining construction and operating permits or as a result of adverse weather conditions. See “Forward-Looking Statements” on page 2.

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 \$8,678,000 (\$1.35 per Unit) and \$6,509,000 (\$1.35 per Unit) during the nine months ended September 30, 2006 and 2005, respectively. The Partnership declared a distribution of \$0.45 per Unit to be paid on December 29, 2006 to Unitholders of record at the close of business on December 15, 2006.

Tax Matters

On March 1, 2006, construction of a new facility located in the city of Montréal, Québec was completed and the facility opened for business. This was the first property owned by the Partnership in the province of Québec. Unitholders may be required to file a Québec tax return. Unitholders should consult their tax advisors.

On April 6, 2006, the Unitholders amended the Partnership Agreement to change the allocation of net income or net loss of the Partnership to Unitholders in proportion to distributions received. In prior years, net income was allocated to December 31 Unitholders based on ownership percentage.

On October 31, 2006, Canada's Minister of Finance announced sweeping proposals to amend the *Income Tax Act* (Canada) to eliminate tax advantages presently enjoyed by certain investors in publicly-traded income trusts and limited partnerships, including the Partnership. Very generally, if these proposals are implemented, 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, if the proposals are implemented, income subject to the new 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.

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. Management, investors and analysts consider FFO and EBITDA to be good measures of the performance of real estate companies because they 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. 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. EBITDA is utilized in determining 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 table calculates FFO and EBITDA for the three and nine months ended September 30, 2006 and 2005:

	Three months ended September 30,			Nine months ended September 30,		
	2006	2005	Change	2006	2005	Change
<u>Calculation of FFO:</u>						
Net income.....	\$ 2,062,000	\$ 1,947,000		\$ 5,613,000	\$ 5,488,000	
Amortization.....	1,188,000	608,000		2,569,000	1,687,000	
Less: gain on sale of land.....	-	-		(137,000)	-	
FFO.....	<u>\$ 3,250,000</u>	<u>\$ 2,555,000</u>	27.2%	<u>\$ 8,045,000</u>	<u>\$ 7,175,000</u>	12.1%
Weighted average number of Units	7,232,145	4,821,430		5,881,085	4,821,430	
FFO per Unit.....	\$0.45	\$0.53	(15.1%)	\$1.37	\$1.49	(8.1%)
<u>Calculation of EBITDA:</u>						
Net income.....	\$ 2,062,000	\$ 1,947,000		\$ 5,613,000	\$ 5,488,000	
Amortization.....	1,188,000	608,000		2,569,000	1,687,000	
Interest expense	110,000	152,000		530,000	283,000	
Less: interest income	(49,000)	(8,000)		(72,000)	(17,000)	
EBITDA.....	<u>\$ 3,311,000</u>	<u>\$ 2,699,000</u>	22.7%	<u>\$ 8,640,000</u>	<u>\$ 7,441,000</u>	16.1%
Weighted average number of Units	7,232,145	4,821,430		5,881,085	4,821,430	
EBITDA per Unit.....	\$0.46	\$0.56	(17.9%)	\$1.47	\$1.54	(4.5%)

Interim Consolidated Balance Sheets
(Unaudited)

	September 30, 2006	December 31, 2005
<u>Assets</u>		
Cash and cash equivalents	\$ 2,198,000	\$ 491,000
Real estate facilities [Note 3]:		
Land and land improvements	23,379,000	17,672,000
Buildings, in-place leases and equipment	79,898,000	50,946,000
	103,277,000	68,618,000
Less: accumulated amortization	(29,354,000)	(26,785,000)
	73,923,000	41,833,000
Construction in progress [Note 3]	-	13,340,000
Rent and other receivables	304,000	277,000
Other assets	901,000	110,000
	\$ 77,326,000	\$ 56,051,000
<u>Liabilities and Partners' Equity</u>		
Accounts payable and accrued liabilities [Note 7]	\$ 1,344,000	\$ 1,419,000
Advanced payments from renters	794,000	590,000
Amounts due under credit facilities [Note 4]	-	28,500,000
Mortgage note payable [Note 5]	5,650,000	-
Commitments and contingencies [Note 8]		
Partners' equity, 7,232,145 partnership units issued and outstanding at September 30, 2006 (4,821,430 partnership units issued and outstanding at December 31, 2005) [Note 6]	69,538,000	25,542,000
	\$ 77,326,000	\$ 56,051,000

See accompanying notes.

Interim Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue:				
Rental income	\$ 5,473,000	\$ 4,470,000	\$ 14,567,000	\$ 12,552,000
Interest and other income	49,000	8,000	72,000	17,000
Gain on sale of land	-	-	137,000	-
	<u>5,522,000</u>	<u>4,478,000</u>	<u>14,776,000</u>	<u>12,569,000</u>
Costs and expenses:				
Cost of operations	1,724,000	1,424,000	4,849,000	4,036,000
Management fees paid to an affiliate [Note 7]	327,000	269,000	873,000	753,000
Amortization	1,188,000	608,000	2,569,000	1,687,000
Administrative	111,000	78,000	342,000	322,000
Interest expense	110,000	152,000	530,000	283,000
	<u>3,460,000</u>	<u>2,531,000</u>	<u>9,163,000</u>	<u>7,081,000</u>
Net income	<u>\$ 2,062,000</u>	<u>\$ 1,947,000</u>	<u>\$ 5,613,000</u>	<u>\$ 5,488,000</u>
Net income per partnership unit	<u>\$ 0.29</u>	<u>\$ 0.40</u>	<u>\$ 0.95</u>	<u>\$ 1.14</u>
Weighted average partnership units outstanding	<u>7,232,145</u>	<u>4,821,430</u>	<u>5,881,085</u>	<u>4,821,430</u>

See accompanying notes.

Interim Consolidated Statements of Partners' Equity
(Unaudited)

Balance at December 31, 2004	\$ 26,812,000
Net income	7,409,000
Distributions to partners	<u>(8,679,000)</u>
Balance at December 31, 2005	25,542,000
Net proceeds from rights offering	47,061,000
Net income	5,613,000
Distributions to partners	<u>(8,678,000)</u>
Balance at September 30, 2006	<u><u>\$ 69,538,000</u></u>

See accompanying notes.

Interim Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
Cash flows provided by operating activities:		
Net income	\$ 5,613,000	\$ 5,488,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of land	(137,000)	-
Amortization	2,569,000	1,687,000
Decrease (increase) in rent and other receivables	(27,000)	49,000
Increase in other assets	(791,000)	(223,000)
Decrease in accounts payable and accrued liabilities	(75,000)	(146,000)
Increase in advanced payments from renters	204,000	35,000
Total adjustments	1,743,000	1,402,000
Net cash provided by operating activities	7,356,000	6,890,000
Cash flows from investing activities:		
Proceeds from sale of land	760,000	-
Capital improvements to real estate facilities	(713,000)	(828,000)
Construction in progress:		
Purchase of property	-	(5,550,000)
Construction of new facilities	(6,921,000)	(3,596,000)
Acquisition of real estate facility:		
Land	(2,850,000)	(2,579,000)
Buildings and in-place leases	(11,458,000)	(6,697,000)
Net cash used in investing activities	(21,182,000)	(19,250,000)
Cash flows from financing activities:		
Net proceeds from rights offering	47,061,000	-
Mortgage note payable	5,676,000	-
Principal payments on mortgage note payable	(26,000)	-
Borrowings from credit facility	4,500,000	19,000,000
Repayment of credit facility	(33,000,000)	-
Distributions to partners	(8,678,000)	(6,509,000)
Net cash provided by financing activities	15,533,000	12,491,000
Net increase in cash and cash equivalents	1,707,000	131,000
Cash and cash equivalents, beginning of period	491,000	275,000
Cash and cash equivalents, end of period	\$ 2,198,000	\$ 406,000
Supplemental cash flow information:		
Interest paid	\$ 650,000	\$ 518,000

See accompanying notes.

Notes to Interim Consolidated Financial Statements
(Unaudited)
September 30, 2006

1. Description of the Partnership

Public Storage Canadian Properties (the "Partnership") is a publicly held limited partnership formed under the *Limited Partnerships Act* (Ontario). The Partnership owns 21 self-storage facilities. Thirteen facilities are located in Ontario, five facilities are located in British Columbia, one facility is located in Alberta and two facilities are located in Quebec. The mini-warehouse 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 facilities are operated under the trade name "Public Storage" and managed by the General Partner of the Partnership pursuant to a separate property management agreement (see Note 6). The General Partner of the Partnership is Canadian Mini-Warehouse Properties Limited ("CMP"). All of the shares of CMP are beneficially owned by B. Wayne Hughes and certain members of his family (collectively, the "Hughes Family"). Entities controlled by the Hughes Family beneficially owned 3,896,942 units of the Partnership ("Units"), including the Units owned by CMP, or approximately 53.9% of the outstanding Units as at September 30, 2006 (2,454,328 Units or approximately 50.9% of the outstanding Units as at December 31, 2005).

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, 2005. 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 presented are not necessarily indicative of the results expected for the full year.

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

3. Real Estate Facilities

In March 2006, construction of a new facility located in the city of Montréal, Québec was completed and the facility opened for business. The facility was converted from a three-storey general warehouse facility which was acquired by the Partnership in July 2005 for \$5,550,000. The total cost to develop this facility (including purchase price of existing property) was approximately \$8,791,000.

In June 2006, the Partnership, through a wholly-owned subsidiary, acquired an existing self storage facility located at 5605 Côte-de-Liesse, St. Laurent, Québec. This property encompasses a mini-warehouse facility that is being operated from three buildings on the property with 216,000 net rentable square feet and 2,381 rentable storage spaces. The acquisition cost of this facility was \$13,850,000 (less the assumption of a mortgage payable of \$5,676,000). Total cost to renovate and rebrand this facility is expected to be approximately \$1,202,000. The Partnership allocated \$2,850,000 to land and \$11,000,000 to buildings and in-place leases. The purchase price allocation was based on estimated fair values based at the time of acquisition and is considered preliminary until the Partnership has obtained the necessary information to complete its allocation.

In July 2006, the newly constructed facility located in the city of Vancouver, British Columbia opened for business. The facility is situated on a site which was acquired by the Partnership in June 2004 for \$2,840,000. The total cost to develop this facility (including cost of land) was approximately \$11,470,000.

4. Credit Facility

In July 2006, the Partnership amended and extended its credit agreement with the Bank of Montreal (the "Credit Facility"). The new \$35 million revolving credit facility matures in July 2009. At the Partnership's option, the rate of interest charged is equal to either (i) the Prime Rate or (ii) a rate equal to the Banker's Acceptance Rate plus an applicable margin of 0.875% (5.21% as at September 30, 2006). In addition, the Partnership is required to pay a standby fee equal to 0.125% based on the unused portion of the Credit Facility. As at September 30, 2006, the Partnership had no outstanding balance on the Credit Facility.

Under the terms of its credit facility, the Partnership is required to (i) maintain a senior funded debt ratio (as defined) of not greater than 4.50 to 1.00 and (ii) maintain a tangible net worth (as defined) of \$60,000,000. As at September 30, 2006, the Partnership was in compliance with the terms of the Credit Facility.

On April 6, 2006, the Unitholders passed an extraordinary resolution amending the Partnership Agreement relating to the limitations on debt financing. The total amount of all secured and unsecured debt of the Partnership (the "Borrowing Limit") was raised from four to seven times earnings of the Partnership before interest, taxes, depreciation and amortization for the twelve months ended the immediately preceding financial quarter of the Partnership. Based on the new terms of the Partnership Agreement, the Borrowing Limit was approximately \$77 million at September 30, 2006.

5. Mortgage Note Payable

The Partnership assumed a mortgage note payable of \$5,676,000 in connection with the acquisition of the facility located at 5605 Côte-de-Liesse, St. Laurent, Québec. The 7.879% mortgage note matures in November 2012 and is secured by the facility.

6. Partners' Equity

On April 6, 2006, the holders of Units of the Partnership (the "Unitholders") approved the issuance of up to a maximum of 2,410,715 Units by way of a rights offering (the "Rights Offering"). Under the Rights Offering, the Partnership issued to each registered Unitholder one right ("Right") for each Unit held. Two Rights entitled a holder to purchase one Unit at a price of \$20.00 per Unit. On June 2, 2006, the Partnership issued 2,410,715 Units in connection with the Rights Offering. Proceeds from the Rights Offering were \$47,061,000, net of estimated offering costs of \$1,153,000. The proceeds were used to paydown the credit facilities and acquire an existing self storage facility located in St. Laurent, Québec (see Note 3).

7. 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 operation of mini-warehouse facilities of the Partnership for a management fee of 6% of Gross Operating Revenues (as defined in the Management Agreement). During the nine months ended September 30, 2006, the Partnership incurred management fees of \$873,000 (\$753,000 – September 30, 2005).

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, including payroll (in 2005), advertising, insurance and support services. Out-of-pocket costs were \$832,000 during the nine months ended September 30, 2006 (\$1,871,000 – September 30, 2005). These amounts are included in cost of operations and administrative expense.

The Partnership also reimbursed CMP for out-of-pocket acquisition and construction costs of \$125,000 for the nine months ended September 30, 2006 (\$75,000 – September 30, 2005). These amounts are capitalized to construction in progress.

As at September 30, 2006, the Partnership owed \$648,000 to CMP (\$320,000 – December 31, 2005). These amounts are included in accounts payable and accrued liabilities.

8. Commitments and Contingencies

Due to the size, complexity and nature of the Partnership's operations, the Partnership is party to various legal matters. 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.

9. Subsequent Events

On November 2, 2006, the Partnership acquired a 5.03 acre property located at 28 Estate Drive in Toronto, Ontario from the Hughes family for approximately \$3,929,000 at their cost (including interest expense, construction costs and other carrying costs actually incurred by them). This acquisition was previously approved by a majority of the Unitholders other than entities controlled by B. Wayne Hughes and members of his family on April 6, 2006.

Public Storage Canadian Properties

Public Storage Canadian Properties
Partnership Highlights

	Q105	Q205	Q305	Q405	Q106	Q206	Q306	2005 YTD	2006 YTD
Operations									
"Same Store" average occupancy	86.8%	88.9%	90.0%	87.9%	87.1%	88.2%	87.3%	88.6%	87.5%
"Same Store" annualized realized rental rates ⁽¹⁾	\$14.44	\$15.02	\$15.39	\$15.07	\$15.10	\$15.93	\$16.21	\$14.96	\$15.75
Rental income	\$3,875,000	\$4,207,000	\$4,470,000	\$4,327,000	\$4,322,000	\$4,772,000	\$5,473,000	\$12,552,000	\$14,567,000
% change from prior year	7.4%	13.5%	11.8%	10.2%	11.5%	13.4%	22.4%	10.9%	16.1%
Net income	\$1,652,000	\$1,889,000	\$1,947,000	\$1,921,000	\$1,528,000	\$2,023,000	\$2,062,000	\$5,488,000	\$5,613,000
Net income per Unit	\$0.34	\$0.39	\$0.40	\$0.40	\$0.32	\$0.36	\$0.29	\$1.14	\$0.95
% change from prior year	(2.9%)	21.9%	5.3%	11.1%	(5.9%)	(7.7%)	(27.5%)	8.0%	(16.7%)
Funds from Operations (FFO) ⁽²⁾	\$2,147,000	\$2,473,000	\$2,555,000	\$2,602,000	\$2,177,000	\$2,618,000	\$3,250,000	\$7,175,000	\$8,045,000
FFO per Unit	\$0.45	\$0.51	\$0.53	\$0.54	\$0.45	\$0.47	\$0.45	\$1.49	\$1.37
% change from prior year	2.3%	21.4%	10.4%	10.2%	0.0%	(7.8%)	(15.1%)	11.2%	(8.1%)
EBITDA ⁽²⁾	\$2,150,000	\$2,592,000	\$2,699,000	\$2,473,000	\$2,383,000	\$2,946,000	\$3,311,000	\$7,441,000	\$8,640,000
EBITDA per Unit	\$0.45	\$0.54	\$0.56	\$0.51	\$0.49	\$0.53	\$0.46	\$1.54	\$1.47
% change from prior year	2.3%	28.6%	16.7%	6.3%	8.9%	(1.9%)	(17.9%)	14.9%	(4.5%)
Stock Price									
Close	\$26.00	\$23.00	\$22.50	\$23.00	\$23.75	\$20.00	\$21.71	\$22.50	\$21.71
High	28.00	26.00	25.50	24.00	25.00	\$23.75	\$22.00	28.00	25.00
Low	21.25	21.61	21.75	20.06	22.00	\$19.55	\$20.00	21.25	19.55
Distribution per Unit	\$0.45	\$0.45	\$0.45	\$0.45	\$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 before depreciation, amortization and gains or losses on sale of real estate assets. 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) or from the System for Electronic Document Analysis and Retrieval ("SEDAR") web site (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

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(866) 772-2623

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