

**PUBLIC STORAGE  
CANADIAN PROPERTIES**

**2004  
SECOND QUARTER REPORT**

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

**Dated August 13, 2004**

Public Storage Canadian Properties ("PSCP" or the "Partnership") reported net income of \$1,531,000 or \$0.32 per partnership unit for the three months ended June 30, 2004 compared to \$1,805,000 or \$0.37 per partnership unit for the same period in 2003. Net income was \$3,218,000 or \$0.67 per partnership unit for the six months ended June 30, 2004 compared to \$3,745,000 or \$0.78 per partnership unit for the same period in 2003. The decrease is due primarily to a decrease 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. The following table summarizes the pre-depreciation operating results of the Partnership's facilities.

	Three months ended June 30,			Six months ended June 30,		
	2004	2003	Change	2004	2003	Change
Rental income.....	\$ 3,708,000	\$ 3,778,000	-1.9%	\$ 7,317,000	\$ 7,640,000	-4.2%
Less: cost of operations .....	1,340,000	1,188,000	12.8%	2,511,000	2,345,000	7.1%
Less: management fees.....	222,000	227,000	-2.2%	439,000	459,000	-4.4%
Net operating income.....	\$ 2,146,000	\$ 2,363,000	-9.2%	\$ 4,367,000	\$ 4,836,000	-9.7%
Gross margin <sup>(1)</sup> .....	57.9%	62.5%		59.7%	63.3%	
Weighted average for period:						
Occupancy .....	89.6%	89.4%		86.0%	88.2%	
Realized annual rent per square foot <sup>(2)</sup> .....	\$13.41	\$13.69	-2.0%	\$13.77	\$14.02	-1.8%

(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.

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

Rental income for the three and six months ended June 30, 2004 was lower than the prior year due to the use of promotional discounts to raise occupancy levels. Discounts were \$516,000 and \$844,000 for the three and six months ended June 30, 2004 compared to \$344,000 and \$530,000 for the same periods in the prior year. Occupancy levels were 81.6%, 83.9% and 93.0% at December 31, 2003, March 31, 2004 and June 30, 2004 compared to 87.6%, 87.2% and 90.8% for the same period in the prior year.

Cost of operations for the three and six months ended June 30, 2004 were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2004	2003	Change	2004	2003	Change
Property taxes .....	\$ 451,000	\$ 420,000	7.4%	\$ 852,000	\$ 841,000	1.3%
Payroll .....	451,000	403,000	11.9%	875,000	795,000	10.1%
Repairs and maintenance .....	164,000	81,000	102.5%	278,000	183,000	51.9%
Utilities .....	76,000	72,000	5.6%	159,000	167,000	(4.8%)
Advertising .....	57,000	84,000	(32.1%)	113,000	155,000	(27.1%)
Insurance .....	49,000	55,000	(10.9%)	92,000	83,000	10.8%
Other .....	92,000	73,000	26.0%	142,000	121,000	17.4%
	<u>\$ 1,340,000</u>	<u>\$ 1,188,000</u>	12.8%	<u>\$ 2,511,000</u>	<u>\$ 2,345,000</u>	7.1%

- Property taxes increased due to property reassessment values.
- Payroll expenses include non-recurring severance payments of \$17,000 and reflect the timing of vacation taken by employees in 2004 versus 2003.
- 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 and is expected to continue at similar levels during the remainder of the year.
- Advertising expense is lower due to cost savings associated with a new telephone reservation system.
- The increase in other expenses relate to professional fees associated with two litigation matters in 2004.

The Partnership also pays a management fee equal to 6% of gross rental revenues (as defined in the management agreement) to an affiliate. The decrease in management fees is due to the decline in rental income.

#### **Depreciation and Amortization**

Depreciation and amortization expense was \$479,000 and \$927,000 for the three and six months ended June 30, 2004 compared to \$465,000 and \$928,000 for the same periods in the prior year.

#### **Administrative**

Administrative expense includes the Partnership's line of credit fees and professional fees associated with accounting, investor services, legal and taxes. Administrative expense was \$139,000 and \$231,000 for the three and six months ended June 30, 2004 compared to \$103,000 and \$183,000 for the same periods in the prior year. The increase is due primarily to higher filing and professional fees.

## **Liquidity and Capital Resources**

The Partnership generates and has adequate sources of cash (including its line of credit) to finance its operations, both on a short-term and long-term basis. Net cash provided by operating activities for the six months ended June 30, 2004 and 2003 was \$3,653,000 and \$4,308,000, respectively.

### *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 \$4,339,000 (\$0.90 per unit) and \$4,340,000 (\$0.90 per unit) during the six months ended June 30, 2004 and 2003, respectively. The Partnership also declared a distribution of \$0.45 per partnership unit to be paid on September 30, 2004 to unitholders of record at the close of business on September 15, 2004. The Partnership expects to continue to make quarterly distributions at these levels.

### *Capital Improvements*

The Partnership budgeted approximately \$1,100,000 in capital expenditures (e.g., new roofs, parking areas and painting) in 2004 to improve the visual and functional characteristics of its 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 owned by the Partnership's competitors. During the six months ended June 30, 2004, the Partnership incurred \$683,000 in capital improvements relating to these items and expects to incur the remaining unused portion by the end of the year. The Partnership expects to fund these expenditures out of operating cash flow and cash reserves.

### *Credit Facility*

The Partnership increased its credit facility with the Bank of Montreal from \$10 million to \$28 million. 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. The credit facility will be used for general corporate purposes and to provide short term financing for property acquisitions and developments. At June 30, 2004, the Partnership had an outstanding balance of \$1,000,000 on its credit facility.

### *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 fourth 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.

**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 six months ended June 30, 2004 and 2003:

	Three months ended June 30,			Six months ended June 30,		
	2004	2003	Change	2004	2003	Change
<b><u>Calculation of FFO:</u></b>						
Net income .....	\$ 1,531,000	\$ 1,805,000		\$ 3,218,000	\$ 3,745,000	
Depreciation and amortization	479,000	465,000		927,000	928,000	
FFO .....	<u>\$ 2,010,000</u>	<u>\$ 2,270,000</u>	-11.5%	<u>\$ 4,145,000</u>	<u>\$ 4,673,000</u>	-11.3%
Weighted average number of partnership units.....	4,821,430	4,821,430		4,821,430	4,821,430	
FFO per partnership unit.....	\$0.42	\$0.47	-10.6%	\$0.86	\$0.97	-11.3%
<b><u>Calculation of EBITDA:</u></b>						
Net income .....	\$ 1,531,000	\$ 1,805,000		\$ 3,218,000	\$ 3,745,000	
Depreciation and amortization	479,000	465,000		927,000	928,000	
Less: interest income .....	(3,000)	(10,000)		(9,000)	(20,000)	
EBITDA .....	<u>\$ 2,007,000</u>	<u>\$ 2,260,000</u>	-11.2%	<u>\$ 4,136,000</u>	<u>\$ 4,653,000</u>	-11.1%
Weighted average number of partnership units.....	4,821,430	4,821,430		4,821,430	4,821,430	
EBITDA per partnership unit .....	\$0.42	\$0.47	-10.6%	\$0.86	\$0.97	-11.3%

## Consolidated Balance Sheets

	June 30, 2004 <u>(Unaudited)</u>	December 31, 2003 <u></u>
<b>Assets</b>		
Cash and cash equivalents	\$ 489,000	\$ 1,056,000
Real estate facilities:		
Buildings, equipment and land improvements	36,976,000	36,293,000
Land	12,986,000	12,986,000
	<u>49,962,000</u>	<u>49,279,000</u>
Less: accumulated depreciation	(23,321,000)	(22,394,000)
	<u>26,641,000</u>	<u>26,885,000</u>
Construction in progress	2,023,000	1,825,000
Rent and other receivables	234,000	245,000
Other assets	125,000	91,000
	<u>\$ 29,512,000</u>	<u>\$ 30,102,000</u>

### Liabilities and Partners' Equity

Accounts payable	\$ 459,000	\$ 984,000
Advanced payments from renters	481,000	425,000
Borrowings from credit facility	1,000,000	-
Partners' equity, 4,993,731 units authorized; 4,821,430 units issued and outstanding	27,572,000	28,693,000
	<u>\$ 29,512,000</u>	<u>\$ 30,102,000</u>

See accompanying notes.

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## Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>Revenue:</b>				
Rental income	\$ 3,708,000	\$ 3,778,000	\$ 7,317,000	\$ 7,640,000
Interest income	3,000	10,000	9,000	20,000
	<u>3,711,000</u>	<u>3,788,000</u>	<u>7,326,000</u>	<u>7,660,000</u>
<b>Costs and expenses:</b>				
Cost of operations	1,340,000	1,188,000	2,511,000	2,345,000
Management fees paid to an affiliate	222,000	227,000	439,000	459,000
Depreciation and amortization	479,000	465,000	927,000	928,000
Administrative	139,000	103,000	231,000	183,000
	<u>2,180,000</u>	<u>1,983,000</u>	<u>4,108,000</u>	<u>3,915,000</u>
<b>Net income</b>	<u>\$ 1,531,000</u>	<u>\$ 1,805,000</u>	<u>\$ 3,218,000</u>	<u>\$ 3,745,000</u>
Net income per partnership unit	<u>\$ 0.32</u>	<u>\$ 0.37</u>	<u>\$ 0.67</u>	<u>\$ 0.78</u>
Weighted average partnership units outstanding	<u>4,821,430</u>	<u>4,821,430</u>	<u>4,821,430</u>	<u>4,821,430</u>

See accompanying notes.

## Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30,	
	2004	2003
<b>Cash flows provided by operating activities:</b>		
Net income	\$ 3,218,000	\$ 3,745,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	927,000	928,000
Decrease (increase) in rent and other receivables	11,000	(104,000)
(Increase) decrease in other assets	(34,000)	27,000
Decrease in accounts payable	(525,000)	(284,000)
Increase (decrease) in advanced payments from renters	56,000	(4,000)
Total adjustments	435,000	563,000
Net cash provided by operating activities	3,653,000	4,308,000
<b>Cash flows from investing activities:</b>		
Capital improvements to real estate facilities	(683,000)	(244,000)
Construction of new facilities	(198,000)	-
Net cash used in investing activities	(881,000)	(244,000)
<b>Cash flows from financing activities:</b>		
Borrowings from credit facility	1,000,000	-
Distributions to partners	(4,339,000)	(4,340,000)
Net cash used in financing activities	(3,339,000)	(4,340,000)
Net decrease in cash and cash equivalents	(567,000)	(276,000)
Cash and cash equivalents, beginning of period	1,056,000	2,646,000
Cash and cash equivalents, end of period	\$ 489,000	\$ 2,370,000

See accompanying notes.

## **Notes to Consolidated Financial Statements**

(Unaudited)  
June 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 as at June 30, 2004, the results of operations for the three and six months ended June 30, 2004 and 2003 and cash flows for the three and six months then ended.
  4. The results of operations for the three months ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year.
  5. The Partnership acquired a 1.3 acre property for \$2,840,000 in the City of Vancouver, British Columbia for development into a mini-warehouse property subsequent to June 30, 2004.
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## Public Storage Canadian Properties Partnership Highlights

	Q103	Q203	Q303	Q403	2003 Total	Q104	Q204	2003 YTD	2004 YTD
<b>Operations</b>									
Average occupancy	87.1%	89.4%	89.8%	82.6%	87.2%	82.5%	89.6%	88.2%	86.0%
Annualized realized rental rates <sup>(1)</sup>	\$14.37	\$13.69	\$14.03	\$14.69	\$14.18	\$14.17	\$13.41	\$14.02	\$13.77
Rental income	\$3,862,000	3,778,000	3,890,000	\$3,745,000	\$15,275,000	\$3,609,000	\$3,708,000	\$7,640,000	\$7,317,000
Pct change from prior year	1.7%	-2.6%	-5.0%	-5.9%	-3.0%	-6.6%	-1.9%	-0.5%	-4.2%
Net income	\$1,940,000	\$1,805,000	\$1,971,000	\$1,618,000	\$7,334,000	\$1,687,000	\$1,531,000	\$3,745,000	\$3,218,000
Net income per Unit	\$0.40	\$0.37	\$0.41	\$0.34	\$1.52	\$0.35	\$0.32	\$0.78	\$0.67
Pct change from prior year	0.8%	-11.9%	-12.8%	-26.1%	-12.8%	-13.0%	-16.2%	-5.1%	-14.9%
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	\$4,673,000	\$4,145,000
FFO Per Unit	\$0.50	\$0.47	\$0.51	\$0.45	\$1.92	\$0.44	\$0.42	\$0.97	\$0.86
Pct change from prior year	1.1%	-9.6%	-8.9%	-18.2%	-9.4%	-12.0%	-10.6%	-4.0%	-11.3%
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	\$4,653,000	\$4,136,000
EBITDA per Unit	\$0.50	\$0.47	\$0.50	\$0.45	\$1.92	\$0.44	\$0.42	\$0.97	\$0.86
Pct change from prior year	1.0%	-7.8%	-10.7%	-18.2%	-9.4%	-12.0%	-10.6%	-3.0%	-11.3%
<b>Stock Price</b>									
Close	\$20.06	\$22.25	\$21.90	\$22.15	\$22.15	\$22.69	\$20.80	\$22.25	\$20.80
High	20.50	22.25	23.40	23.00	23.40	23.00	22.69	22.25	23.00
Low	19.40	19.72	21.25	20.85	19.40	20.25	19.65	19.40	19.65
Distribution per Unit	\$0.45	\$0.45	\$0.45	\$0.45	\$1.80	\$0.45	\$0.45	\$0.90	\$0.90

(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, 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**

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