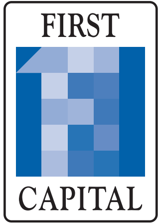

FIRST CAPITAL REALTY INC.

annual report 2001

CORPORATE PROFILE

FIRST CAPITAL REALTY INC. (TSX:FCR) is a growth-oriented, publicly traded real estate investment company that concentrates on the ownership of neighbourhood and community shopping centres in high-growth areas in Canada and the United States.

The Company's primary investment objective is the creation of value through long-term maximization of cash flow and capital appreciation from its growing shopping centre portfolio. In Canada this objective is achieved by proactively managing the existing shopping centre portfolio, by seeking appropriate opportunistic acquisitions and by undertaking selective development activities. In the United States the Company is active through its holdings in Equity One, Inc., a publicly traded real estate investment trust (NYSE:EQY). First Capital Realty is managed by experienced real estate professionals who have a significant interest in creating long-term value for all shareholders. First Capital's common shares, convertible debentures, debentures and warrants trade on The Toronto Stock Exchange.

Standing: Derek Hull, Director of Asset Management & Development; Monique Dubord, Director of Leasing; Francois LeRouzes, Director of Asset Management & Development; Chaim Katzman, Chairman; Ron Marek, Controller.
Seated: Frank Bucys, Chief Financial Officer; Sylvie Lachance, Executive Vice-President; Dori Segal, President & C.E.O.; Alexandra Correia, Assistant Secretary.

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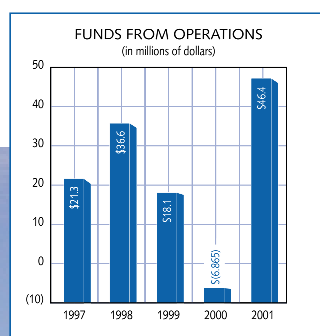
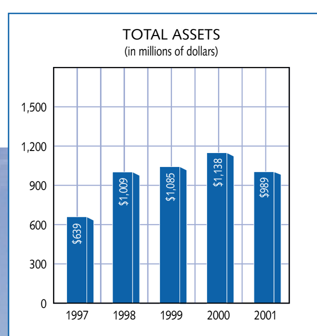
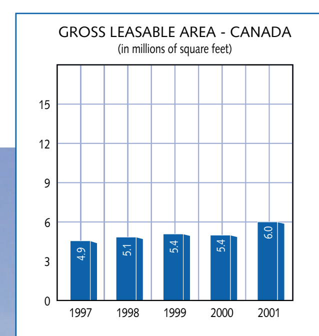
FINANCIAL HIGHLIGHTS

(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)

	2001	2000	1999	1998	1997
INCOME STATEMENT					
Gross rental income	$ 140,680	$ 147,893	$ 136,827	$ 112,599	$ 71,798
Earnings (loss)	$ 31,495	$ (15,171)	$ 11,233	$ 16,662	$ 10,020
Per common share	$ 1.09	$ (1.93)	$ (0.17)	$ 0.45	$ 0.47
Per diluted common share	$ 1.04	$ (1.93)	$ (0.17)	$ 0.45	$ 0.47
Funds from operations before provision for/recovery of previous management's incentive and other fees and termination of advisory services	$ 37,905	$ 43,260	$ 44,923	$ 36,589	$ 21,311
Per common share	$ 2.46	$ 2.85	$ 3.10	$ 2.62	$ 1.59
Per diluted common share	$ 1.31	$ 1.48	$ 1.57	$ 1.46	$ 1.22
Funds from operations	$ 46,443	$ (6,865)	$ 18,073	$ 36,589	$ 21,311
Per common share	$ 3.02	$ (0.45)	$ 1.25	$ 2.62	$ 1.59
Per diluted common share	$ 1.57	$ (0.45)	$ 0.77	$ 1.46	$ 1.22
Company's share of Equity One's unremitted funds from operations	$ 1,293	$ ----	$ ----	$ ----	$ ----
Dividends declared per common share	$ 0.99	$ 0.93	$ 0.89	$ 0.85	$ 0.81
BALANCE SHEET					
Total assets	$ 988,539	$1,137,516	$1,085,043	$1,008,847	$ 638,735
Total liabilities	$ 578,968	$ 740,839	$ 663,505	$ 575,806	$ 422,463
Shareholders' equity	$ 409,571	$ 396,677	$ 421,538	$ 433,041	$ 216,272
COMMON SHARES					
Weighted average number outstanding	15,377,001	15,200,291	14,469,728	13,947,169	13,387,996
Outstanding at December 31	15,377,024	15,376,986	15,070,323	14,307,706	13,455,501







MESSAGE TO SHAREHOLDERS

FOR FIRST CAPITAL REALTY, 2001 WAS A YEAR OF TRANSITION. WE WERE BUSY PRIMARILY MAKING THE COMPANY BETTER FOCUSED ON ITS CORE BUSINESS. TODAY WE ARE A GROWTH-ORIENTED, CANADIAN PUBLIC REAL ESTATE INVESTMENT COMPANY WITH A SIGNIFICANT STAKE IN A U.S. REIT.

During the year we completed the assembly of our new management team. In the first full year of operations under new management, the Company achieved some significant milestones. We:

- Assessed and reevaluated our portfolio;
- Exchanged our U.S. portfolio of shopping centres for a significant holding in Equity One;
- Obtained a US$70 million credit facility secured against the Equity One shares;
- Resolved issues with former management;
- Invested approximately $170 million over the past 15 months in properties, redevelopment and land for development; and
- Generated funds from operations in 2001 totalling $46.4 million, compared to an outflow of $6.9 million in the prior year.

I believe that we had solid progress in 2001, making the Company much simpler for us to manage and for you to understand and placing it on a firmer foundation for growth. Our continuing objective is to maximize long-term cash flow and capital appreciation from our growing portfolio of shopping centres. We plan to achieve this in three ways:

- Active management of our existing portfolio;
- A focused and disciplined acquisition strategy; and
- Selective development and redevelopment activities.

I would like to emphasize that we take a long-term view of value creation, in our portfolio and ultimately for our shareholders.

In 2001 we resolved issues with former management, having settled the Fair Value Incentive dispute for the $9.2 million amount previously advanced. In September, we changed the Company's name from Centrefund Realty Corporation to First Capital Realty Inc., to reflect our new identity. In addition to resolving issues regarding former management, we were very busy taking stock of our portfolio and completing some interesting transactions. The most noteworthy for the Company was the sale of its U.S. assets in exchange for an interest in Equity One.

When the new management team was put in place in late 2000, First Capital Realty had properties located across Canada and the United States. After a thorough examination of our assets, we decided to better focus our resources in Canada and join forces with a local management team south of the border. In September 2001, we completed the sale of Centrefund Realty (U.S.) Corporation, which held our U.S. portfolio of shopping centres, to Equity One, in exchange for 10.5 million common shares of Equity One, representing a 36% stake. Equity One is a publicly traded REIT, trading on the New York Stock Exchange under the symbol EQY, with a market capitalization of approximately US $450 million. Today, we own 10.9 million shares of Equity One and we are its largest single shareholder.

Our largest shareholder, the Gazit Group, is also a principal investor in Equity One. As a result of this transaction, we now participate in a bigger and more diversified U.S. portfolio with a highly experienced local management team.

Subsequent to the Equity One transaction, our U.S. subsidiaries obtained a US$70 million credit facility secured against the Equity One shares. This facility has been used to pay down debt and fund acquisitions. We believe that we are in a good position financially to seek out and consider additional acquisition and development opportunities.

We have completed a number of transactions this year. We:

- Purchased Brampton Corners for $40.8 million;
- Acquired our partner's 50 per cent interest in five shopping centres and two development sites for $25.5 million;
- Acquired University Plaza and Place Cite des Jeunes for $11.6 million;
- Purchased $4.9 million of land for development;
- Spent $28.5 million on development and redevelopment work; and
- Subsequent to year-end, purchased six shopping centres in the Greater Montreal area for $58 million.

We also recently announced that the Company has entered into discussions with the Gazit Group, its largest shareholder, to acquire Gazit's Canadian shopping centre business. This portfolio is comprised of six neighbourhood and community centres and two free-standing retail buildings, with approximately 800,000 square feet of gross leasable area. These properties are all located in the Greater Montreal area, which will further strengthen the Company's presence in Quebec.

First and foremost, First Capital Realty is focused on delivering shareholder value. We will continue to focus on internal growth and seek out new acquisition opportunities.

Part of our long-term growth strategy is to invest, as necessary, in our centres to add value to our portfolio. Tenants are becoming more sophisticated and we want to ensure that their experience in a First Capital Realty shopping centre is a positive one. We remain optimistic about leasing opportunities in 2002.

We intend to selectively pursue development activities, either alone or on a joint-venture basis. Development and redevelopment remains an important aspect of our overall business and we expect a number of these to come online throughout the year.

The industry is consolidating and we intend to take advantage of new opportunities. We have a very focused acquisition strategy and maintain a disciplined buying approach when evaluating potential shopping centres. Since the Company is already well diversified geographically, we will continue to expand in markets where we currently operate to capitalize on local market knowledge, economies of scale, existing anchor tenant relationships, and on management and leasing synergies.

In conclusion, I would like to take this opportunity to thank our tenants for their business, our employees and the property manager's employees for their hard work and dedication, our Board of Directors for their guidance and counsel, and our shareholders for their confidence in the future of our Company.

I look forward to providing you with regular updates on our progress throughout the year.

Sincerely,

Dori J. Segal
President and Chief Executive Officer

CANADIAN OPERATIONS

As at December 31, 2001, First Capital Realty's Canadian income producing shopping centre portfolio consisted of 43 properties containing approximately 6,043,000 square feet of net leasable area. The Company's Canadian shopping centres average 141,000 square feet in size (2000 – 158,000 square feet) and have an average net book value of $112 per square foot (2000 – $106 per square foot). As at December 31, the portfolio is summarized as follows:

(As at December 31)	2001		2000	
Location	Number of Properties	Square Footage[(1)] (thousands)	Number of Properties	Square Footage[(1)] (thousands)
Ontario	22	3,661	16	3,127
Western Canada	12	1,722	11	1,677
Quebec	6	555	4	458
Maritimes	3	105	3	111
Total	43	6,043	34	5,373

(1) Net of anchor-owned area

ACQUISITIONS AND DISPOSITIONS

First Capital Realty acquired interests in twelve properties or sites in 2001. Brampton Corners, a 291,000 square foot shopping centre was purchased in February. The centre is anchored by Wal-Mart and Fortino's (Loblaws) both with long term leases.

In July the Company:

- Purchased the remaining 49.9% interest in five of our operating joint venture centres (Steeple Hill Shopping Centre, Towerhill Centre, Wellington Corners, West Lethbridge Towne Centre and Longueuil Plaza) and two development sites, as part of the Centrefund Development Group ("CDG") wind-up. These properties are neighbourhood centres that are well located in their respective communities. All of the centres are grocery store anchored, with one of these being tenant owned.
- Acquired and begun to develop a 12,500 square foot strip plaza with expansion potential of an additional 13,000 square feet in Aylmer, Quebec.
- Exercised its option to acquire the freehold interest in the lands of Les Galeries de Repentigny for $2.8 million.

In August, a development site, located in Gatineau, Quebec, was acquired and construction began on a 45,000 square foot IGA supermarket anchored shopping centre, which was completed in March 2002. The site has expansion potential for an additional 6,000 square feet of gross leasable area.

Place Cite des Jeunes in Hull, Quebec was purchased in November. This 55,000 square foot neighbourhood centre is anchored by a Metro supermarket, with a long term lease, that will be expanded in 2002.

In December, University Plaza, a 152,000 square foot shopping centre, was purchased in Windsor, Ontario. The centre is anchored by both a Canadian Tire and an A&P.

Subsequent to year end, we purchased an 800,000 square foot portfolio of shopping centres in the Montreal area from Ivanhoe Cambridge for $58 million, including closing costs. Ten year mortgage debt of $27.4 million on four of the properties has been completed at 7.07%. The balance of the purchase price was paid in cash. All six of these properties are grocery store anchored. We expect these centres to add at least $6 million to net rental income on an annualized basis. We will continue to look for acquisitions that meet our investment criteria.

No properties were sold in 2001.

REDEVELOPMENT AND RENOVATION

A substantial portion of the redevelopment of Northgate Centre in Edmonton was completed in 2001. Highlights of the renovation program completed in 2001 include the 23,500 square foot expansion of the Zellers (in the former K-Mart location) and demolition of the former Zellers store to allow construction of a new 55,000 square foot Safeway. The demolition of the existing Safeway store made way for a new Future Shop, Lammle's, Sport Mart and

another 15,000 square feet of tenant space. The Zellers expansion was completed in January, the new Safeway store opened in July and the Future Shop store opened in November. Remaining to be completed are the construction of the commercial retail unit space with direct exterior access in the location of the old Safeway store and the renovation of the interior commercial retail unit and food court area. We anticipate the project will be completed by the end of the third quarter in 2002.

Construction continues on Les Galeries de Lanaudiere in Lachenaie, Quebec. This centre, when completed, is expected to total approximately 260,000 square feet of net leaseable area. As at December 31, 2001 approximately 67,000 square feet of tenant space, including Business Depot, Winners, Addition-elle and Danier, was occupied and construction was underway on an additional 105,000 square feet of space where leases have been signed. Construction on the remaining 88,000 square feet of space to be leased will be undertaken as leases are signed.

Harwood Plaza in Ajax is currently undergoing a major renovation and expansion. The renovation program is highlighted by the expansion of the Food Basic's (A&P) store and the relocation and expansion of the Shoppers Drug Mart store. Both of these were completed in late 2001. In addition, the entire facade was renovated in 2001. In 2002, we expect a number of pads will be developed and the complete restoration of the parking facilities will occur at the centre.

Longueuil Plaza in Longueuil, Quebec, a 42,000 square foot neighbourhood shopping centre, was completed and fully leased in 2001. Major tenants in the centre include Bank of Nova Scotia and Blockbuster.

At La Porte de Gatineau the existing Future Shop is being relocated and expanded. Construction began in September 2001 and was completed in February 2002.

At Fairview Mall in St. Catharines, a new LCBO is under construction, with completion anticipated in the summer of 2002.

In addition to the ongoing redevelopment program, we are also renovating the facades at a number of our other centres. Facades were upgraded at Ambassador Plaza in Windsor and Thickson Place in Whitby in 2001. In 2002, we will be upgrading the facades at Bridgeport Plaza, University Plaza, Place Cite des Jeunes and La Porte De Gatineau. We will continue to upgrade facades and other aspects of our centres as needed in order to ensure the long-term competitiveness of our centres.

LEASING

Leasing activity in 2001 resulted in the completion of net new leasing totalling 108,000 square feet of space. This net new leasing will generate additional minimum rent of approximately $1.7 million as compared to $1.2 million from 2000 net new leasing activities. In addition, lease renewals on 228,000 square feet were completed in 2001, as compared to 190,000 square feet of space in 2000. The 2001 renewals will generate annual minimum rent of almost $3.5 million, representing an increase of 7.1% above the pre-renewal net annual rent as compared to $2.9 million in minimum rent attributable to 2000 renewals, which represented a 0.6% increase over pre-renewal rental rates. The occupancy level of the portfolio, including projects currently under redevelopment, was 93% of total net leasable area as at December 31, 2001.

ANCHOR TENANT SALES

Anchor tenant sales are a good indicator of overall shopping centre performance. We are pleased to report that during 2001 our supermarket sales increased by approximately 6% and our junior department store sales increased by approximately 3%. The following table outlines the average comparable anchor tenant sales per square foot for reporting tenants by major use category for the Company's Canadian portfolio:

(Per Square Foot)	2001	2000
Food Supermarkets	$615	$578
Junior Department Stores	$216	$211

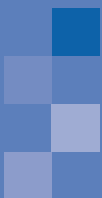
For the year ended December 31, 2001 the Company earned $1.4 million (2000 – $1.0 million) in percentage rent from its anchor tenants in Canada.

SHOPPING CENTRE PORTFOLIO
DECEMBER 31, 2001

Name and Location	Year Built or Acquired	Net Leasable Area	First Capital % Interest	First Capital Net Interest	Major or Anchor Tenants
ONTARIO					
Cedarbrae Mall Toronto, Ontario	1996	470,000	100%	470,000	Zellers, Loblaws, Canadian Tire, Toys 'R' Us, LCBO
Fairview Mall St. Catharines, Ontario	1994	377,000	100%	377,000	Zellers, Zehrs (Loblaws), Cineplex, A&P, Chapters, Office Place, Kelsey's, Future Shop, Mark's Work Warehouse
Brantford Mall Brantford, Ontario	1995	296,000	100%	296,000	Wal-Mart, Zehrs (Loblaws), Cineplex
Brampton Corners Brampton, Ontario	2001	291,000	100%	291,000	Wal-Mart, Fortino's (Loblaws)
Tillsonburg Town Centre Tillsonburg, Ontario	1994	244,000	100%	244,000	Zellers, Valu-Mart (Loblaws), Canadian Tire
Bridgeport Plaza Waterloo, Ontario	1994	211,000	100%	211,000	Zellers, Sobeys
Harwood Plaza Ajax, Ontario	1999	185,000	100%	185,000	Food Basics (A&P), Shoppers Drug Mart
Queenston Place Hamilton, Ontario	1995	172,000	100%	172,000	Zellers, Office Place, Mark's Work Warehouse
Parkway Centre Peterborough, Ontario	1996	172,000	100%	172,000	Zellers, IGA (Sobeys)
Sheridan Plaza Toronto, Ontario	1996	168,000	100%	168,000	Zellers, Food Basics (A&P)
Stanley Park Mall Kitchener, Ontario	1997	167,000	100%	167,000	Zellers, Zehrs (Loblaws), LCBO
University Plaza Windsor, Ontario	2001	152,000	100%	152,000	A&P, Canadian Tire, Shoppers Drug Mart
Ambassador Plaza Windsor, Ontario	1994	137,000	100%	137,000	Zellers, LCBO
Festival Marketplace Stratford, Ontario	1997	126,000	100%	126,000	Zellers, Sears, Canadian Tire
Orleans Gardens Ottawa, Ontario	1997	111,000	50%	55,500	Your Independent Grocer (Loblaws)
Thickson Place Whitby, Ontario	1997	93,000	100%	93,000	A&P, Toys 'R' Us
Eagleson Place Ottawa, Ontario	1997	75,000	100%	75,000	Loblaws
Steeple Hill Shopping Centre Pickering, Ontario	2000	66,000	100%	66,000	Price Chopper (Sobeys), Shoppers Drug Mart
Northfield Centre Waterloo, Ontario	1999	52,000	50%	26,000	Sobeys, Pharma Plus
Towerhill Centre Peterborough, Ontario	2001	49,000	100%	49,000	IGA (Sobeys)
Wellington Corners London, Ontario	1999	38,000	100%	38,000	Price Chopper (Sobeys)
Delta Centre Cambridge, Ontario	1998	9,000	100%	9,000	Wendy's
		3,661,000		**3,579,500**	

Name and Location	Year Built or Acquired	Net Leasable Area	First Capital % Interest	First Capital Net Interest	Major or Anchor Tenants
WESTERN CANADA					
Northgate Centre Edmonton, Alberta	1997	517,000	100%	517,000	Zellers, Safeway, Future Shop
South Park Centre Edmonton, Alberta	1996	378,000	100%	378,000	Zellers, Canadian Tire, Toys 'R' Us, Office Depot, Linen's 'N' Things, Sport Chek
Sherwood Towne Square Sherwood Park, Alberta	1997	135,000	100%	135,000	Zellers, Staples
The Village Market Sherwood Park, Alberta	1997	113,000	100%	113,000	Safeway, London Drugs
Red Deer Village Red Deer, Alberta	1999	109,000	100%	109,000	Mark's Work Wearhouse, Sportmart
Gateway Village St. Albert, Alberta	1994	107,000	100%	107,000	Safeway
West Lethbridge Towne Centre Lethbridge, Alberta	1998	78,000	100%	78,000	Safeway, Home Hardware
Sherwood Centre Sherwood Park, Alberta	1997	76,000	100%	76,000	CIBC, Rogers Video
London Place West Calgary, Alberta	1998	71,000	100%	71,000	London Drugs
Regent Park Shopping Centre Regina, Saskatchewan	1999	66,000	100%	66,000	Safeway
Leduc Towne Square Edmonton, Alberta	1997	46,000	100%	46,000	Safeway, Canadian Tire
Registan Shopping Centre Regina, Saskatchewan	1999	26,000	100%	26,000	Safeway
		1,722,000		**1,722,000**	
QUEBEC					
La Porte de Gatineau Gatineau, Quebec	1994	151,000	100%	151,000	Loblaws, Toys 'R' Us, Future Shop
La Porte de Chateauguay Chateauguay, Quebec	1995	132,000	100%	132,000	Zellers
Les Galeries de Repentigny Repentigny, Quebec	1997	119,000	100%	119,000	Metro Richelieu, Pharmaprix
Les Promenades du Parc St. Hubert, Quebec	1997	56,000	71.08%	39,800	IGA (Sobeys)
Place Cite des Jeunes Hull, Quebec	2001	55,000	100%	55,000	Metro, Uniprix
Longueuil Plaza Longueuil, Quebec	2000	42,000	100%	42,000	Bank of Nova Scotia, Blockbuster
		555,000		**538,800**	
MARITIMES					
Cole Harbour Shopping Centre Dartmouth, Nova Scotia	1997	52,000	100%	52,000	Sobeys, Canadian Tire
Ropewalk Lane St. John's, Newfoundland	1997	40,000	100%	40,000	Dominion (Loblaws)
Highfield Park Dartmouth, Nova Scotia	1997	13,000	100%	13,000	Tim Horton's, Ultramart
		105,000		**105,000**	
TOTAL CANADA		**6,043,000**		**5,945,300**	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



BUSINESS OVERVIEW AND STRATEGY

First Capital Realty Inc. (formerly Centrefund Realty Corporation) ("First Capital Realty") was incorporated under the laws of the Province of Ontario by articles of incorporation dated November 10, 1993. The Company, directly and through subsidiaries, invests in community and neighbourhood shopping centres in Canada. The Company also invests in the U.S. through its share holding in Equity One, Inc. (NYSE:EQY) ("Equity One"), a neighbourhood and community shopping centre REIT that operates mainly in Florida and Texas. The Company and Equity One are each indirectly controlled subsidiaries of Gazit-Globe (1982) Ltd. ("Gazit"), an Israeli corporation trading on the Tel Aviv Stock Exchange.

The Company has experienced significant growth through the acquisition of additional shopping centres. Since the commencement of operations on March 29, 1994 the Company has expanded, through acquisition, its initial portfolio of five shopping centres containing approximately 933,000 square feet of gross leasable area to 46 properties in Canada including three under development, with approximately six million square feet of gross leasable area. Including properties held through its 36% investment in Equity One, at December 31, 2001 the Company had interests in 132 properties totalling approximately 14.6 million square feet of gross leasable area. The Company's growth has been financed by mortgage and credit facility debt, three issues of common stock and five issues of convertible debentures.

First Capital Realty owns and operates geographically diversified neighbourhood and community-sized shopping centres. The centres generally contain necessities-oriented anchor tenants, such as grocery stores, that in management's view are less susceptible to general economic swings. Management intends to concentrate future acquisitions mainly on centres that are food-anchored, in areas with high growth and in which the Company is already active. Management believes that there are significant synergies available from concentrating on markets in which the Company has a significant presence.

First Capital Realty's primary investment objective is the creation of value through long-term maximization of cash flow and capital appreciation from its growing shopping centre portfolio. This objective is achieved by actively managing the existing shopping centre portfolio, by a focused and disciplined acquisition strategy and by undertaking selective development and redevelopment activities.

On August 18, 2000, subsidiaries of Gazit purchased a controlling interest in the Company, pursuant to the terms of a take-over bid. In conjunction with the change of control of the Company, a new management team was put in place to lead the Company.

Prior to the acquisition of control, Dawsco Realty Advisory Corporation (the "Advisor"), a private Ontario corporation controlled by two of the Company's former directors, one of whom was the Company's Chairman, President and Chief Executive Officer until August 18, 2000, provided services through an advisory agreement (the "Advisory Agreement"). The Advisor and property manager had a number of incentives in place pursuant to advisory and certain other agreements. On the acquisition of control, in accordance with the terms of the Advisory Agreement, all of the incentive fees became payable in cash and the Advisory Agreement was terminated.

As outlined under "Previous Management's Incentive and Other Fees" below, current management disputed the calculation of one of the incentives, the fair value incentive amount. In August 2001, the fair value incentive amount was settled at the $9.2 million amount already advanced and this resulted in an $8.5 million reversal of the fair value incentive provision.

In 1997, the Company entered into an exclusive partnership arrangement for the development of neighbourhood and community shopping centres in Canada and the United States. The partnership carried on business under the name Centrefund Development Group ("CDG"). On the change of control of First Capital Realty, in accordance with the terms of the original partnership agreement, First Capital Realty's

joint venture partner in CDG had the right to acquire CDG's 33 optioned sites at cost. On August 18, 2000, the 33 sites were purchased and the partnership became non-exclusive. In July, 2001, the Company wound-up the Canadian portion of this partnership by acquiring its development partner's interest in five shopping centres and two development sites for total consideration of $25.5 million. First Capital Realty continues to seek out appropriate acquisition opportunities and to develop and redevelop properties where financially advantageous; either alone; or in the case of development and redevelopment, with joint venture partners.

On January 31, 2002 the Company acquired a portfolio of six neighbourhood and community shopping centres in the greater Montreal area, with approximately 800,000 square feet of gross leaseable area. The $58 million purchase price was satisfied by ten-year mortgage debt on four of the six centres totalling $27.4 million at 7.07% with the balance paid in cash.

THE EQUITY ONE TRANSACTION

In September 2001, First Capital Realty completed the sale of its wholly-owned U.S. subsidiary, Centrefund Realty (U.S.) Corporation ("CEFUS"), to Equity One, a self-administered and self-managed publicly traded U.S. real estate investment trust. Equity One also announced that it had completed its acquisition of United Investors Realty Trust, a U.S. real estate investment trust. As a result, First Capital Realty became the largest single shareholder of Equity One, owning approximately 36%, or 10.5 million common shares.

Equity One principally acquires, renovates, develops and manages community and neighbourhood shopping centres anchored by national and regional supermarket chains. As of December 31, 2001, Equity One's portfolio consisted of 86 shopping centres and other retail and commercial properties. These properties are located primarily in metropolitan areas of Florida and Texas and contain an aggregate of approximately 8.6 million square feet of gross leasable area.

At December 31, 2001 the Company owned 10.5 million common shares of Equity One, approximately 36% of its outstanding shares. At March 31, 2002 the Company owned 10.9 million common shares of Equity One, approximately 33% of its outstanding shares.

The transaction with Equity One serves to better focus the Company's resources in Canada while still allowing it to participate in the U.S. market. In management's view, from a real estate perspective, the Company exchanged a 100% ownership interest in 29 properties for a 33% interest in 86 properties. First Capital Realty's United States portfolio required an experienced local management team in order to grow and create value. Equity One will be able to provide the appropriate focus on these properties and the combined operation should result in a greater realization of value from these properties. Further, First Capital Realty will no longer have the direct obligation to fund the capital requirements, if any, of a U.S. portfolio.

The transaction was between parties under common control and there was no substantive change in the controlling interests of CEFUS. As a result, the investment in Equity One was recorded using the carrying amount of the Company's net investment in CEFUS and related transaction costs. The investment is adjusted, under the equity basis of accounting, to include the Company's share of post-acquisition earnings of Equity One and any additional contributions, distributions or movements in the Canadian and United States dollar exchange rate. The Company's share of Equity One's unremitted funds from operations using Canadian generally accepted accounting principles ("GAAP") and expressed in thousands of Canadian dollars, which has not been included in the Company's funds from operations, totalled $1.3 million.

The closing price on the New York Stock Exchange of Equity One's common shares at December 31, 2001 was US$13.74 per share. The book value per share of the Company's investment in Equity One at December 31, 2001 was US$11.41. At December 31, 2001, 28.8 million shares of Equity One were outstanding, 10.5 million shares of which were held by the Company.

Following the Equity One transaction, First Capital Realty's wholly-owned U.S. subsidiaries obtained a US$70 million, five-year credit facility at LIBOR plus 150 basis points. The facility, which has been used to pay down debt and fund acquisitions, is secured against the Equity One shares.

RESULTS OF OPERATIONS

Since mid-1996, the Company has raised $360 million through the issue of four series of convertible debentures. As a result, as detailed in note 18 of the consolidated financial statements, there are a substantial number of common shares attached to the conversion rights of the Company's outstanding convertible debentures. Accordingly, it is important when assessing the financial performance of the Company to review the diluted per share data.

The Company believes that, for public real estate companies, funds from operations is a commonly accepted and meaningful indicator of financial performance. Funds from operations does not recognize amortization as an operating expense or recognize future income taxes until these are actually paid.

Funds from operations for the year ended December 31, 2001 totalled $46.4 million or $3.02 per common share, compared to an outflow of $6.9 million or $(0.45) per common share for fiscal 2000. On a diluted basis, funds from operations were $1.57 per common share for 2001, compared to $(0.45) in the prior year. In 2001, funds from operations were increased by the $8.5 million recovery of previous management's incentive and other fees. In the comparative year for fiscal 2000, funds from operations were reduced by previous management's incentive and other fees totalling $50.1 million. Excluding the effects of previous management's incentive and other fees, funds from operations per share in 2001 were $2.46 basic and $1.31 diluted compared to $2.85 basic and $1.48 diluted in 2000.

Net earnings for the year ended December 31, 2001 were $31.5 million, or $1.09 per share, basic and $1.04 diluted, compared to a loss of $15.2 million or a loss per share of $1.93 per share, basic and diluted, in the prior year.

The Company believes that the recovery of, and provision for, previous management's incentive and other fees described in note 16 to the consolidated financial statements, should be considered separately, as a non-recurring item, when evaluating the Company's financial performance.

RENTAL INCOME

In Canada, net rental income (gross rental income net of property operating costs) increased by $10.7 million to $62.8 million. Canadian net rental income on a same centre basis increased by $2.4 million or 5% over the prior year. In Canada, the Company acquired one property in the first quarter of 2001 for $40.8 million; acquired its development partner's 50% interest in five shopping centres and two development sites for $25.5 million in the third quarter of 2001; and two other properties in the fourth quarter of 2001 for $11.6 million. These properties together with development and redevelopment completed in the year contributed $7.2 million to Canadian net rental income in 2001. The year ended December 31, 2000 was one of transition in which no properties were acquired. Due to their acquisition and completion part way through the year, the impact of the fiscal 2001 acquisitions and developments will not be fully realized until 2002.

The Company's business includes the redevelopment and remerchandising of retail space. As a result, the Company, in the normal course of operations, generates income from payments received from tenants as compensation for the cancellation of leases. In 2001, the Company received Canadian net lease cancellation payments of $2.1 million compared to $1.4 million in 2000.

In the United States, net rental income decreased from $40.8 million to $28.2 million, primarily as a result of the Equity One transaction. After September 20, 2001, income from the Company's investment in Equity One was recorded under the caption Equity Income from Equity One.

INTEREST, OTHER INCOME AND GAINS ON SALE

Interest, other income and gains on sale comprises the following:

(in thousands of dollars)	2001	2000
Interest and other income	$ 6,022	$ 5,306
Gains on sale	8,070	1,326
Dividend income	185	804
Total	$ 14,277	$ 7,436

The Company earns interest income from funds invested in three types of investments: short-term bankers' acceptances, advances made to the Company's development partner, and an investment in a portfolio of short-term mortgages and other receivables including a note due from a municipality. The increase in interest and other income in 2001 results from gains of $1.5 million primarily on the disposition of an investment in the common shares of Revenue Properties Company Limited, a Toronto Stock Exchange-listed company involved in the ownership of shopping centres in Canada and the United States, offset mainly by reduced income from advances to its development partner in 2001 due to the wind-up of CDG, its development joint venture.

The gains on sale in the year ended December 31, 2001 arose from the sale of the Harbour Financial office building in Florida. In 2000, the net gains on sale arose from the sale of two shopping centres as well as gains generated from the sale of excess land held for redevelopment.

Dividend income was primarily earned by the Company on its investment in Revenue Properties Company Limited shares prior to their disposition.

INTEREST EXPENSE ON MORTGAGES AND CREDIT FACILITIES

Canadian interest expense on mortgages comprises the following:

(in thousands of dollars)	2001	2000
Interest expensed	$ 26,216	$ 22,301
Interest capitalized	1,468	1,938
Total Canadian mortgage interest	$ 27,684	$ 24,239

The increase of $3.4 million in Canadian interest on mortgages and credit facilities in 2001 over 2000 substantially results from the increase in the level of Canadian borrowing by the Company to fund acquisitions and fees paid to previous management. In addition to the $25.5 million net increase in Canadian borrowing during 2001, the Company incurred a full year's interest on the mortgages financed in 2000. Partially offsetting this was a decrease in the average interest rate paid on the Company's Canadian fixed rate borrowings, as detailed on page 14 under the caption "Mortgages Payable and Credit Facilities", from 7.8% in 2000 to 7.6% in 2001.

United States interest expense on mortgages and credit facilities comprises the following:

(in thousands of dollars)	2001	2000
Interest expensed	$ 15,805	$ 17,630
Interest capitalized	669	1,183
Total United States mortgage interest	$ 16,474	$ 18,813

The reduction in interest incurred in 2001 is due primarily to the sale of the Company's U.S. portfolio to Equity One in September 2001.

CORPORATE EXPENSES

Corporate expenses comprises the following:

(in thousands of dollars)	2001	2000
Base incentive fees paid to former advisor	$ -	$ 1,181
Salaries, wages and benefits	2,426	1,050
U.S. asset management fees	642	518
Capital taxes, net of recoveries from tenants	1,024	949
Capitalized general and administrative costs	-	(776)
Other general and administrative costs	2,889	2,367
Total	$ 6,981	$ 5,289

Base incentive fees paid to the Company's Advisor were terminated after the change in control of the Company in 2000 and replaced by salaries and wages of employees.

Under the terms of an asset management agreement effective August 15, 2000, a wholly owned subsidiary of Equity One was retained by the Company as an asset manager of the Company's entire United States portfolio until November 30, 2000 and until September 20, 2001 for the Texas portion of the portfolio. The annualized asset management fee was 0.4% of the book value of assets managed. Equity One earned $0.8 million in fiscal 2001 and $0.5 million in fiscal 2000 under the terms of the agreement.

In fiscal 2001, no corporate fees incurred were capitalized to shopping centres under redevelopment or land held for development as compared to $0.8 million in 2000 capitalized before the change of control.

General and administrative costs incurred in 2001 exceeded the level incurred in 2000 by $0.5 million as a result of costs related to increased levels of acquisition and development activity.

AMORTIZATION

Canadian asset amortization for the year ended December 31, 2001 was $7.9 million, $1.4 million higher than the prior year. This primarily results from redevelopment of shopping centres in 2001 and 2000, new acquisitions in 2001 and use of the sinking fund method of depreciation under which amortization expense on buildings increases by 5% per year.

U.S. asset amortization for the year ended December 31, 2001, at $5.2 million, was $0.7 million lower than the prior year. The same factors that increased Canadian asset amortization were more than offset by the impact of the sale of the Company's U.S. assets in September 2001.

INTEREST ON DEBENTURES

Interest on the Company's outstanding debentures comprises the following:

(in thousands of dollars)	2001	2000
Interest expensed on convertible debentures	$ 5,149	$ 5,821
Interest expensed on debentures	2,859	2,862
Total debenture interest expensed	8,008	8,683
Interest on equity component of convertible debentures	21,663	21,200
Cash interest paid	$ 29,671	$ 29,883

Interest expensed on convertible debentures declined in 2001 as a result of the reduction in the average liability component of the Company's outstanding convertible debentures and the conversion in the prior year of $6.3 million of debentures into common shares of the Company. This was partially offset by an increase in interest on the equity component of the convertible debentures.

PREVIOUS MANAGEMENT'S INCENTIVE AND OTHER FEES

On August 18, 2000, the Gazit Group purchased a controlling interest in the Company, pursuant to the terms of a takeover bid (the "Offer"). Prior to this change in control, the Advisor and Property Manager had a number of incentives in place pursuant to advisory and certain other agreements.

On the acquisition of control, in accordance with the terms of the amended Advisory Agreement, all of the incentive fees became payable in cash and the Advisory Agreement was terminated. On termination of the Advisory Agreement, in accordance with its terms, the Advisor became entitled to receive a fair value incentive amount.

Former management of the Company, which included the Company's former Chairman, President and Chief Executive Officer, who also controlled the Advisor, calculated and accrued the fair value incentive amount to be $21.35 million. This amount was recorded after an offer by the Gazit Group to acquire a controlling interest in the Company in June 2000. At December 31, 2000, $9.2 million of the fair value incentive amount had been advanced. The fair value incentive amount, as calculated by the Advisor, was based on the Advisor's estimate of the fair market value of the Company's shopping centre portfolio.

Current management of the Company disputed the calculation of the fair value incentive amount. In August 2001, the fair value incentive amount was settled at the $9.2 million amount already advanced. As a result, and after providing for certain Canadian property management costs, a recovery of $8.5 million was recorded.

The previous management's incentive fees and certain other costs, primarily associated with the Company's

consideration of the Offer, and the cost of cancelling the property management contract for the Florida property portfolio, in accordance with a settlement agreement dated August 15, 2000, totalled $50.1 million, as disclosed in note 16 to the Company's 2001 consolidated financial statements.

INCOME AND OTHER TAXES

Current taxes comprise the following:

(in thousands of dollars)	2001	2000
Canadian federal large corporations tax	$ 1,600	$ 1,350
United States current income and withholding taxes	1,962	495
Total	$ 3,562	$ 1,845

The increase in the Canadian federal large corporations tax results from the increase in the size of the Company's capital base.

The United States current income and withholding taxes of $2.0 million arises from income earned by the Company's U.S. subsidiaries. In 2000, prior year tax losses were available to reduce the current portion of income taxes in the United States. No further U.S tax losses are available to offset current income tax in the United States.

In fiscal 2001, the provision for future income taxes amounted to $12.7 million, compared to a $2.7 million recovery in 2000. These amounts are calculated based on income or loss in the year. The recovery in 2000 was adversely affected by various federal and provincial income tax rate reductions during the year, and an impairment of certain tax losses available for carryforward.

CAPITAL STRUCTURE

The real estate business is capital-intensive by nature. First Capital Realty focuses on its capital structure to maintain stability and finance growth. In the real estate industry, financial leverage tends to generate competitive rates of return on equity. First Capital Realty's blend of debt and equity in its capital base minimizes income taxes and generates acceptable equity returns while taking into account the long-term prospects of the Company.

MORTGAGES PAYABLE AND CREDIT FACILITIES

As at December 31, 2001 mortgages and credit facilities payable represented 47.5% of the total book value of the Company's assets, excluding future income tax assets, as compared to 53.4% in 2000. This decrease was due to the sale of the Company's U.S. assets to Equity One and Equity One's assumption of mortgages relating to those assets.

At December 31, 2001, 81.6% of the outstanding mortgage and credit facility liabilities bore interest at fixed interest rates, compared to 84% in 2000. Of the $84.9 million in floating rate financing, $80.5 million represents financing at LIBOR plus 1.5% secured against 10.5 million shares of Equity One.

In Canada, the Company had fixed rate mortgages outstanding at year end totalling $359.6 million, bearing interest at an average interest rate of 7.6% compared to $283.0 million in outstanding mortgages with an average interest rate of 7.8% at the end of 2000. The increase in the outstanding balance is the net result of $29.1 million in repayments and $105.7 million in net new financing, primarily for acquisitions and redevelopment.

The Company's $190.8 million investment in Equity One is financed, in part, by U.S.-dollar-denominated credit facilities totalling Cdn$96.4 million. The debt service requirements of these credit facilities are fully funded by the cash flow generated by the dividend from Equity One. This reduces the Company's exposure to fluctuations in foreign currency exchange rates.

The decrease from $259.9 million (US$173.3 million) to $96.4 million (US$60.5 million) in the outstanding balance of U.S. mortgages and credit facilities primarily resulted from the assumption by Equity One of all mortgages related to the Company's U.S. portfolio of assets offset by the new credit facility secured against the Company's investment in 10.5 million shares of Equity One.

The Company also attempts to manage its long-term debt by staggering maturity dates in order to mitigate against short-term volatility in the debt markets. At

December 31, 2001, the Company had mortgages aggregating $57.3 million maturing in 2002, of which $39.4 million were fixed rate mortgages at an average interest rate of 7.1%. The Company does not anticipate any difficulty in replacing these mortgages at current interest rates.

DEBENTURES PAYABLE

At December 31, 2001, $37.9 million of 7.5% debentures that are not convertible into common stock of the Company remain outstanding. These debentures are direct subordinated obligations of the Company that are secured by a floating charge on four of the Company's shopping centres and mature on December 1, 2003.

CONVERTIBLE DEBENTURES

Long-term convertible debentures have been issued by First Capital Realty as a tax-effective method of financing a portion of the equity component of its shopping centre portfolio expansion.

Accordingly, a large portion of the Company's capital is in the form of convertible debentures that mature between 2006 and 2008. The debentures require interest payable semi-annually at rates ranging from 7% to 8.5%.

After the 3.33% adjustment noted under "Issuance of Warrants" below, holders of these debentures have the right to convert them into an aggregate total of 18,271,786 common shares at share prices that range from $14.98 to $24.40 per share on or before maturity.

If the holders of the debentures do not exercise their conversion rights, the Company has the option of repaying the debentures on maturity by way of the issue of common shares at 95% of the then trading price of the Company's common stock.

The two $100 million issues of 7.0% and 7.25% debentures completed in 1998 also provide the Company with the option, subject to regulatory approval, to pay semi-annual interest through the issue of common stock.

In accordance with the recommendations of the Canadian Institute of Chartered Accountants relating to the presentation and disclosure of financial instruments, each series of the Company's convertible debentures is presented in its debt and equity component parts, measured at its respective issue dates, as more thoroughly detailed in Note 1(g) to the Company's 2001 consolidated financial statements. The details of the Company's outstanding convertible debentures are summarized in Note 9 to the Company's 2001 consolidated financial statements.

SHAREHOLDERS' EQUITY

Shareholders' equity amounted to $409.6 million as at December 31, 2001, as compared to $396.7 million at the end of 2000. Shareholders' equity as at December 31, 2001 includes $309.7 million (2000 – $299.9 million) which represents the equity component of convertible debentures as discussed above.

As at December 31, 2001 the Company had 15,377,024 (2000 – 15,376,986) issued and outstanding common shares with a stated capital of $154.5 million (2000 – $154.5 million). During fiscal 2001, a total of 38 common shares (2000 – 573,263 common shares) were issued in connection with the conversion of convertible debentures. The issue of the shares in 2000 added $6.5 million to stated capital.

In addition, the Company purchased and cancelled 226,600 common shares in 2000 pursuant to its normal course issuer bid resulting in a charge of $2.3 million to stated capital.

Shareholders' equity as at December 31, 2001 includes a net cumulative unrealized currency translation adjustment in the amount of $12.7 million (2000 – $11.2 million). This amount represents the difference between the U.S. dollar exchange rate in effect at the date of the acquisition of the Company's U.S. net assets, and the U.S. dollar exchange rate as at December 31, 2001 and 2000, respectively. The U.S. dollar exchange rate in effect at December 31, 2001 increased to US$1.00 = Cdn$1.59 from US$1.00 = Cdn$1.50 as at December 31, 2000.

Shareholders' equity as at December 31, 2001 includes a deficit of $69.3 million (2000 – $70.9 million). The Company has historically paid dividends, consistent with general industry practice, based on cash flow from operations as opposed to net income.

ISSUANCE OF WARRANTS

On April 15, 2002 the Company announced the issuance of 12,301,619 common share purchase warrants entitling holders to acquire common shares at $11.80 per share. The warrants are exercisable during a three-month period commencing on June 1 and ending on August 31 in each year from 2002 to 2008, on and subject to certain terms and conditions, and may be exercisable in certain other limited circumstances. The issuance of the warrants resulted in a 3.33% decrease in the exercise price of the Company's convertible debentures and options.

The warrants were issued under a rights offering in which the maximum number of warrants available under the rights offering were subscribed by holders of common shares. The warrants are listed for trading on The Toronto Stock Exchange under the ticker symbol FCR.WT.

The warrants represent an additional means of potentially increasing the Company's capital base over time without incurring significant issue costs.

LIQUIDITY

Funds from operations before previous management's incentive and other fees totalled $37.9 million (2000 - $43.3 million). This amount was available to fund payments on the equity portion of convertible debentures totalling $21.7 million, pay regular debt amortization of $10.1 million, dividends of $15.2 million and tenant inducements of $3.3 million. The resulting net use of cash of $12.4 million, together with the acquisition, expansion and redevelopment of shopping centres, the acquisition and development of land and advances to the Company's development partners were funded by net mortgage refinancing, interim financing and the Company's credit facility, which is secured against 10.5 million common shares of Equity One.

Cash and cash equivalents were $44.0 million at December 31, 2001 (2000 – $33.6 million). Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term.

Refinancing of projects in the coming year is expected to add available cash. The actual level of future borrowings will be determined based upon the level of liquidity required, the prevailing interest rate and debt market conditions.

DIVIDENDS

The Company has maintained a policy of paying regular quarterly dividends to common shareholders since it was formed in 1994. Dividends are set taking into consideration the Company's capital requirements and its alternative sources of capital.

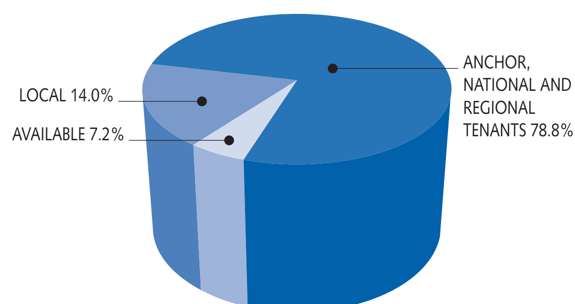
In 2001, the Company paid dividends of $0.99 per common share (2000 - $0.93 per common share). The dividends in 2001 represented 76% (2000 - 63%) of the $1.31 (2000 - $1.48) the Company reported as diluted funds from operations per share before the recovery/ provision for previous management's incentive and other fees. The Company is currently paying a quarterly dividend of $0.27 per common share. The annual dividend has grown at a compound rate of approximately 5% since the Company was formed in March 1994.

RISK MANAGEMENT

First Capital Realty is exposed to numerous business risks in the normal course of its business that can impact both short and long-term performance. It is the responsibility of management, under the supervision of the Board of Directors, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk First Capital Realty encounters in conducting its business and the manner in which it takes actions to minimize their impact are outlined below.

Operating Risk

The Company's most significant operating risk is the potential for reductions in revenue resulting from an inability to maintain acceptable levels of occupancy and stable or increasing rental rates. First Capital Realty focuses on securing retail tenants that provide consumers with basic necessities and amenities as distinct from those that cater to more discretionary fashion demands. Management believes that this makes the Company's revenues less susceptible to general economic swings as, even during economic downturns, consumers continue to purchase necessities such as groceries and basic clothing.



The financial success of First Capital Realty's tenants, operating in well-located, properly maintained and successfully merchandised and positioned properties, will minimize the impact of this risk on the Company. First Capital Realty seeks out tenants that are well capitalized. First Capital Realty's lease arrangements with many of its tenants provide for income protection and growth through rent escalations and through a participation in the tenants' sales success in the form of percentage rents, which are payable in addition to minimum rents. First Capital Realty's leases generally also require tenants to be responsible for the payment of realty taxes and the costs of operating and managing the property within which they are located. As such, these leases are considered to be net leases to the Company.

Nature of Tenancies

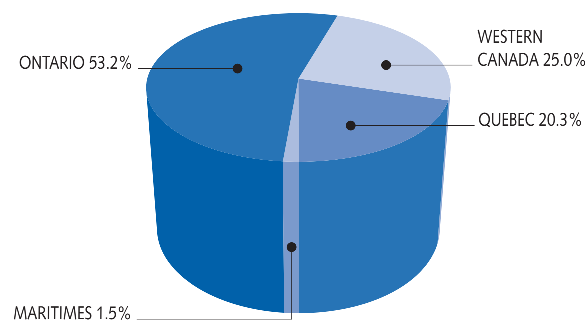
First Capital Realty seeks to lease a large portion of the gross leasable area of each of its properties on a long-term basis to successful anchor tenants such as food supermarkets, discount department stores and promotional retailers. These tenants, in addition to creating a stable source of long-term rental income, generate customer traffic for the benefit of smaller retail and service tenants. The nature and relationship of the anchors to small shop tenants and the balance between national and local retailers is a key ingredient in establishing stable, sustainable revenue from each of First Capital Realty's properties. As the pie chart above illustrates, approximately 79% of First Capital Realty's total gross leasable area is occupied by anchor, national and regional retail tenants.

Lease Maturities

First Capital Realty's lease maturities are staggered on a property-by-property basis, which helps generate a more stable flow of revenue and mitigate risks related to changing market conditions. The Company's leasing philosophy is directed at obtaining long-term tenancies with contractual rent escalations, as well as participation in sales success through leases with percentage rent clauses. The Company has a very stable shopping centre portfolio, with lease expirations in each of the next five years ranging from 3.0% to 8.2% of the total leased area in the First Capital Realty portfolio.

Geographic Diversification

As the chart below illustrates, the existing First Capital Realty portfolio is geographically diversified, with major concentrations in Ontario, Alberta and Quebec. Further diversification is obtained through our investment in Equity One. There is a trade-off between operational efficiencies and market influence that can be achieved by geographic concentration, and vulnerability to local market influences that can be avoided by geographic diversification. First Capital Realty will seek to add properties in areas where it currently owns shopping centres to take advantage of local market knowledge, anchor tenant relationships and synergies in both management and leasing. The Company does this while taking into account local market conditions that can affect occupancy rates and rental income levels.



Financial Risk

To limit the Company's exposure to overall reductions in credit availability in poor economic times, the Company attempts to stagger its long-term debt maturities and maintain an adequate level of cash or undrawn credit capacity. First Capital Realty also attempts to

arrange stand-alone, limited recourse project financing to further mitigate the potential risk of a lack of replacement financing. In addition, the Company limits the amount of floating rate debt it will incur at any one time in order to insulate itself from interest rate volatility.

The Company's U.S. investment is self-sustaining and financed in part by U.S.-dollar-denominated credit facilities, which are fully serviced by the cash flow generated by the dividends from its U.S. investment. This reduces the Company's exposure to fluctuations in foreign currency exchange rates. The Company has not traditionally hedged its net U.S. dollar asset position. The book value of U.S. dollar assets, net of U.S.-dollar-denominated debt, is approximately US$61 million. A 1% strengthening of the Canadian dollar against the U.S. dollar would result in a $1.0 million decrease in the net book value of the Company's net assets in the United States.

First Capital Realty limits its exposure to rising interest rates by obtaining long-term fixed-rate financing, when available, and attempting to avoid concentrations of debt maturities. The combination of rising rents and fixed-rate financing can significantly enhance the value of a well-leased shopping centre portfolio.

Acquisition, Expansion and Development Risk

The key to the Company's ongoing success will be its ability to create and enhance value through the skill, creativity and energy of its management team. First Capital Realty will continue to seek out acquisition, expansion and selective development opportunities that offer acceptable risk-adjusted rates of return. The Company's acquisition criteria are stringent and its due diligence procedures are rigorous. First Capital Realty uses a team of trained professionals, including lawyers, engineers, accountants and architects, to thoroughly analyze each proposed acquisition prior to its completion. No acquisition is completed without a detailed analysis and a personal inspection by the most senior officers of the Company's management team. First Capital Realty believes that acquisitions should be undertaken only if there is the potential for meaningful long-term growth in operating cash flow. Distressed properties are acquired only if the Company is satisfied that the property can become economically viable in a short, predictable period of time.

Environmental Risk

Management believes that shopping centres generally pose minimal environmental risk as very few tenants manufacture, process or store substances that would be considered environmentally unsafe. The major exceptions to this general rule can be gas stations situated on out-parcels adjacent to shopping centre properties and some dry cleaning establishments. The primary responsibility for any environmental remediation rests with the party responsible for creating the contamination, although the Company may also be liable. First Capital Realty maintains a program of periodically reviewing and testing its properties to determine if environmental problems exist and includes, as a standard covenant in its leases, a prohibition against environmentally unsound activities. The Company undertakes a professionally conducted environmental audit before it completes the acquisition of any property in order to help mitigate environmental risk.

ECONOMIC CONDITIONS

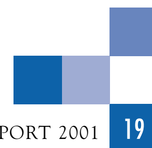
The economic conditions in the markets in which the Company operates can have a significant impact on the Company's financial success. Adverse changes in general or local economic conditions can result in some retailers being unable to sustain viable businesses and meet their lease obligations to the Company, and may also limit the Company's ability to attract new or replacement tenants. However, management believes that First Capital Realty's shopping centres are generally less susceptible to economic downturns, as they cater to the basic needs of the retail customer by having food supermarkets, drug stores, financial services, discount department stores and promotional retailers as tenants. In addition, the impact of economic conditions on the overall First Capital Realty portfolio has been mitigated through the long-term nature of its existing leases and through geographic diversification.

EFFECTS OF INFLATION

Inflation has remained relatively low since First Capital Realty commenced operations in March 1994. As a result, inflation has had a minimal impact on the Company's operating performance to date. Nevertheless, most of First Capital Realty's long-term leases contain provisions designed to mitigate the adverse impact of inflation. These provisions include a pass-through of operating costs, including realty taxes and most management expenses, which insulates the Company from inflationary price increases. In addition, some leases include clauses that allow the Company to receive percentage rents based on tenants' gross sales, which generally increase as prices rise. Many Company's long-term leases include rent escalation clauses, which increase rental rates over the term of the lease at either pre-negotiated levels or levels determined by reference to increases in the Consumer Price Index. Many of the Company's non-anchor leases are for terms of five years or less, providing the Company with the opportunity to achieve rent increases on renewal or when re-renting the space.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS.

This annual report, including Management's Discussion and Analysis contained herein, contains forward-looking statements relating to First Capital Realty's operations and the environment in which it operates that are based on First Capital Realty's expectations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. First Capital Realty undertakes no obligations to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.



MANAGEMENT'S RESPONSIBILITY

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with generally accepted accounting principles appropriate for the real estate industry in Canada.

The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 6, 2002.

Management is also responsible for the maintenance of financial and operating systems, which include effective controls to provide reasonable assurance that the Company's assets are safeguarded and that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities through its Audit Committee whose members are not involved in day-to-day operations of the Company. Each quarter the Audit Committee meets with management and, as necessary, with the independent auditors, Deloitte & Touche LLP, to satisfy itself that management's responsibilities are properly discharged and to review and report to the Board on the consolidated financial statements.

In accordance with generally accepted auditing standards, the independent auditors conduct an examination each year in order to express a professional opinion on the consolidated financial statements.

Dori J. Segal
President and Chief Executive Officer

Frank Bucys, C.A.
Chief Financial Officer

2001 CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of First Capital Realty Inc. (formerly Centrefund Realty Corporation)

We have audited the consolidated balance sheets of First Capital Realty Inc. (formerly Centrefund Realty Corporation) as at December 31, 2001 and 2000 and the consolidated statements of operations, deficit, funds from operations and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Toronto, Ontario
March 6, 2002

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

(IN THOUSANDS OF DOLLARS)

	2001	2000
ASSETS		
Shopping centres (note 3)	$ 661,476	$ 945,648
Land and shopping centres under development and redevelopment (note 4)	39,005	54,330
Investment in Equity One, Inc. (notes 2 and 5)	190,774	-
Cash and cash equivalents	43,951	33,604
Amounts receivable (note 6)	17,861	49,616
Other assets (note 7)	16,124	37,922
Future income tax assets (note 17)	19,348	16,396
	$ 988,539	$ 1,137,516
LIABILITIES		
Mortgages payable and credit facilities (note 8)	$ 460,356	$ 598,318
Accounts payable and accrued liabilities	31,350	47,870
Convertible debentures payable (note 9)	49,396	56,485
Debentures payable (note 10)	37,866	38,166
	578,968	740,839
SHAREHOLDERS' EQUITY (note 11)	409,571	396,677
	$ 988,539	$ 1,137,516

See accompanying notes to financial statements.

Approved by the Board of Directors:

Chaim Katzman
Director

Dori J. Segal
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2001 AND 2000

(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)

	2001	2000
Gross rental income	$ 140,680	$ 147,893
Property operating costs	49,684	54,985
Rental income	90,996	92,908
Equity income from Equity One, Inc. (note 5)	4,080	-
Interest and other income	6,207	7,551
	101,283	100,459
Interest expense:		
Mortgages and credit facilities (note 12)	42,021	39,931
Debentures	8,008	8,683
	50,029	48,614
Corporate expenses (note 13)	6,981	5,289
Operating income before the following items	44,273	46,556
Amortization	13,096	12,339
(Recovery of) previous management's incentive and other fees (note 16)	(8,538)	50,125
Operating income (loss)	39,715	(15,908)
Gain (loss) on disposition of shopping centre (note 3)	8,070	(115)
Earnings (loss) before income and other taxes	47,785	(16,023)
Income and other taxes (note 17):		
Current	3,562	1,845
Future	12,728	(2,697)
	16,290	(852)
Net earnings (loss) for the year	$ 31,495	$ (15,171)
Net earnings (loss) per common share (note 18)	$ 1.09	$ (1.93)
Diluted net earnings (loss) per common share (note 18)	$ 1.04	$ (1.93)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT

YEARS ENDED DECEMBER 31, 2001 AND 2000

(IN THOUSANDS OF DOLLARS)

	2001	2000
Deficit, beginning of the year	$ (70,921)	$ (27,347)
Net earnings (loss) for the year	31,495	(15,171)
Interest and accretion on equity component of convertible debentures (net of tax of $9,532; 2000 - $9,331)	(14,675)	(14,221)
Dividends	(15,223)	(14,182)
Deficit, end of the year	$ (69,324)	$ (70,921)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF FUNDS FROM OPERATIONS

YEARS ENDED DECEMBER 31, 2001 AND 2000

(IN THOUSANDS OF DOLLARS)

	2001	2000
Net earnings (loss) for the year	$ 31,495	$ (15,171)
Add (deduct):		
Amortization	11,340	10,888
Gain on disposition of marketable securities	(1,451)	-
(Gain) loss on disposition of shopping centre	(8,070)	115
Equity income from Equity One, Inc.	(4,080)	-
Dividend income from Equity One, Inc.	4,481	-
Future income tax (recovery)	12,728	(2,697)
Funds from operations	$ 46,443	$ (6,865)
Funds from operations per common share (note 18)		
Basic	$ 3.02	$ (0.45)
Diluted	$ 1.57	$ (0.45)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001 AND 2000

(IN THOUSANDS OF DOLLARS)

	2001	2000
OPERATING ACTIVITIES		
Funds from operations	$ 46,443	$ (6,865)
Net change in non-cash operating items	(14,071)	(4,270)
Cash provided by (used in) operating activities	32,372	(11,135)
INVESTING ACTIVITIES		
Acquisition of shopping centres	(52,306)	-
Expansion and redevelopment of shopping centres	(40,047)	(35,657)
Proceeds on disposition of land and shopping centres	34,960	27,092
Acquisition and development of land	(14,822)	(22,641)
Equity One, Inc. transaction (note 2)	(17,417)	-
Advances to development partner	(1,220)	(7,873)
Reduction in mortgages receivable	1,834	4,458
Investment in marketable securities	(3,987)	-
Proceeds on disposition of marketable securities	18,394	204
Cash used in investing activities	(74,611)	(34,417)
FINANCING ACTIVITIES		
Proceeds of mortgage financings and credit facilities	256,346	216,232
Principal repayments of mortgages payable	(168,750)	(128,786)
Debentures purchased and cancelled	(300)	-
Payments on convertible debentures, net of interest expensed	(21,663)	(21,200)
Common shares purchased and cancelled	-	(2,344)
Dividends	(15,223)	(14,182)
Cash provided by financing activities	50,410	49,720
Effect of currency rate movement on cash balances	2,176	967
Increase in cash and cash equivalents	10,347	5,135
Cash and cash equivalents, beginning of the year	33,604	28,469
Cash and cash equivalents, end of the year	$ 43,951	$ 33,604
SUPPLEMENTARY INFORMATION		
Cash income taxes paid	$ 2,118	$ 1,932
Cash interest paid	$ 73,371	$ 72,481

See accompanying notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The Company was incorporated under the laws of Ontario to engage in the business of acquiring, expanding, developing, redeveloping and owning neighbourhood and community shopping centres.

On September 7, 2001, at the annual and special meeting, the Company's shareholders passed a resolution changing the Company's name from Centrefund Realty Corporation to First Capital Realty Inc.

The Company's financial statements are presented in accordance with Canadian generally accepted accounting principles and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies. The Company's significant accounting policies are as follows:

(a) **Principles of Consolidation**
The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, trusts, and the Company's proportionate share of assets, liabilities, revenues and expenses of partnership and limited liability corporate ventures, which are accounted for using the proportionate consolidation method. Investments in which the Company has a significant influence are accounted for on the equity basis.

(b) **Shopping Centres and Land and Shopping Centres Under Development and Redevelopment**
Shopping centres are stated at the lower of cost less accumulated amortization and net recoverable amounts. Shopping centres under development and redevelopment and land held for development are stated at the lower of cost and net recoverable amounts. Cost includes all expenditures incurred in connection with the acquisition, development, redevelopment and initial leasing of the properties. These expenditures include acquisition costs, construction costs, initial leasing costs, other direct costs, building improvement costs and carrying costs. Carrying costs (including property taxes and interest on both specific and general debt, net of operating results) are capitalized to the cost of the properties until the accounting completion date (which is based on achieving a satisfactory occupancy level within a predetermined time limit).

Net recoverable amounts represent the estimated future net cash flow expected to be received from the ongoing use and residual worth of the properties. To arrive at this amount, the Company projects the cash flow for each property on an undiscounted basis and reviews the current market value of its land holdings. These projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

(c) **Gross Rental Income**
Gross rental income includes rents earned from tenants under lease agreements, including percentage participation rents, property tax and operating cost recoveries, and incidental income, including lease cancellation payments.

(d) **Amortization**
The Company follows the sinking-fund method of amortizing its buildings and improvements. Under this method, amortization is charged to income in increasing annual amounts consisting of fixed annual sums, together with interest compounded at the rate of 5% per annum, so as to fully amortize the properties over their estimated useful lives, which vary but do not exceed 40 years.

Leasing fees and tenant inducements incurred on securing leases, other than initial leases, are amortized over the term of such leases on a straight-line basis.

The Company amortizes commitment fees and other costs incurred in connection with debt financing over the term of such financing on a straight-line basis.

(e) **Investment in Marketable Securities**
The Company's investment in marketable securities is stated at cost unless there is a decline in value, which is considered to be other than temporary, in which case the investment is written down to estimated realizable value.

(f) **Foreign Currency**
The Company carries on business in the United States through operationally and financially self-sustaining entities.

Assets and liabilities denominated in United States dollars are translated into Canadian dollars at year-end exchange rates. The resulting net gains or losses are accumulated as a separate component of shareholders' equity. Revenues and expenses denominated in United States dollars are translated at the average exchange rate for the year.

(g) **Convertible Debentures**
The Company presents its convertible debentures in their debt and equity component parts where applicable, as follows:

(i) The debt component represents the value of the semi-annual interest obligations to be satisfied by cash, discounted at the rate of interest that would have been applicable to a debt-only instrument of comparable term and risk at the date of issue. As a result, a portion of the semi-annual interest payments has been treated as a reduction of the debt component and the remainder as interest expense.

(ii) The equity component of the convertible debentures is presented under "Shareholders' Equity" in the consolidated balance sheets. A value is ascribed to the equity component as a result of the Company's ability upon maturity to convert the debentures into common shares, and is increased over its term to the full face value of the debentures by an annual charge to the deficit. In addition, debentures that provide the Company with the ability to satisfy the interest payments through the issuance of common shares are also included in the equity component of convertible debentures. A value is also ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the debentures.

(iii) Debenture issue costs are proportionately allocated to their respective debt and equity components. The debt component of the issue costs is classified as deferred financing costs, and is amortized over the term of the debentures. The equity component of the issue costs reduces the carrying value of the equity component of the convertible debentures.

(h) **Income Taxes**
Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which the differences are expected to reverse.

(i) **Financial Instruments**
The fair value of the Company's financial instruments is estimated based on the amount at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. Fair value is estimated using market values where available or using present value techniques and assumptions concerning the amount and the timing of expected future cash flows and discount rates which reflect the appropriate level of risk of the instrument. The estimated fair values may differ from those which could be realized in an immediate settlement of the instruments. The fair value of cash and cash equivalents approximates their carrying value.

Certain amounts receivable, other assets, accounts payable and accrued liabilities are assumed to have a fair value that approximates their historical cost carrying amount due to their short-term nature.

The fair value of loans receivable, mortgages and credit facilities payable, and debentures payable has been determined by discounting the cash flows of these financial obligations using market rates for debt of similar corresponding term and risk.

The Company may periodically enter into interest rate swap transactions to fix interest rates on current or future outstanding debt. The initial cost of entering into such transactions is recorded as interest expense over the term of the debt. Any ongoing difference payable or receivable on such transactions is recorded as an adjustment to interest expense.

(j) **Stock-Based Compensation Plan**
The Company has a stock-based compensation plan, which is described in note 11. Any consideration paid on the exercise of stock options is credited to share capital.

(k) **Statements of Cash Flows and Funds from Operations**
As is common practice within the real estate industry, the Company has included statements of funds from operations in its financial statements. This measurement, which is an important component of cash flow, is considered a meaningful and useful indicator of real estate operating performance. Funds from operations is the equivalent of income before extraordinary items adjusted for income and dividends received from equity-accounted investments, future income taxes, amortization of capital items and any gain or loss on sale of, or provision against, capital items. Funds from operations excludes unremitted funds from operations from equity-accounted investments.

(l) **Use of Estimates**
The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from such estimates.

2. EQUITY ONE, INC. TRANSACTION

Effective September 20, 2001, the Company sold all the outstanding shares of its wholly owned subsidiary, Centrefund Realty (U.S.) Corporation ("CEFUS"), to Equity One, Inc. ("Equity One") (NYSE:EQY), a self-administered and self-managed real estate investment trust, in exchange for 10,500,000 shares of common stock of Equity One. This resulted in the Company holding approximately 36% of the issued and outstanding common stock of Equity One.

The Company and Equity One are each indirectly controlled subsidiaries of Gazit Globe (1982) Ltd. ("Gazit"), an Israeli corporation trading on the Tel Aviv Stock Exchange.

The transaction was between parties under common control and there has not been a substantive change in the controlling interests of CEFUS. As a result, the investment in Equity One has been recorded using the carrying amount of the Company's net investment in CEFUS and related transaction costs.

The following is a summary of the Company's net investment in CEFUS as at September 20, 2001, prior to the Equity One transaction, and the Company's corresponding investment in Equity One as at September 20, 2001, expressed in thousands of dollars.

Shopping centres	$ 413,496
Land and shopping centres under development	14,115
Cash and cash equivalents	17,417
Amounts receivable	22,322
Other assets	14,735
Mortgages payable and credit facilities	(268,883)
Accounts payable and accrued liabilities	(13,472)
Future income tax liabilities	(10,093)
Net investment in CEFUS, September 20, 2001, prior to disposition	189,637
Transaction costs and other adjustments	(154)
Investment in Equity One, September 20, 2001	$ 189,483

3. SHOPPING CENTRES

Shopping centres, expressed in thousands of dollars, consist of the following:

	2001	2000
Land	$ 111,420	$ 165,915
Buildings and improvements	563,818	791,573
Deferred leasing costs	11,628	21,814
	686,866	979,302
Accumulated amortization	(25,390)	(33,654)
	661,476	945,648
Geographic Segmentation		
Canada	$ 661,476	$ 557,834
United States	-	387,814
	$ 661,476	$ 945,648

In February 2001, the Company purchased a shopping centre in Brampton, Canada, for $40.8 million, including closing costs, financed in part by $30.1 million in mortgages with the balance paid in cash.

In July 2001, the Company acquired its development partner's interest in five Canadian shopping centres for total consideration of approximately $21.2 million. The acquisition was satisfied by the Company's assumption of third party debt secured against the properties, the assumption of certain other liabilities, and a reduction of the development partner's debt obligations to the Company.

In August 2001, CEFUS disposed of a shopping centre in Florida for $33.1 million (US$21.0 million), resulting in a gain of $8.1 million (US$5.1 million). The gain recognized on the disposal of this property was contemplated under the terms of the Equity One purchase and sale agreement.

4. LAND AND SHOPPING CENTRES UNDER DEVELOPMENT AND REDEVELOPMENT

Land and shopping centres under development and redevelopment, expressed in thousands of dollars, consist of the following:

	2001	2000
Acquisition costs	$ 18,669	$ 34,320
Development costs	17,442	14,388
Interest costs	2,894	5,622
	$ 39,005	$ 54,330
Geographic Segmentation		
Canada	$ 39,005	$ 27,370
United States	-	26,960
	$ 39,005	$ 54,330

In July 2001, the Company acquired its development partner's interest in two development sites for total consideration of approximately $4.3 million. The acquisition was satisfied by the Company's assumption of third party debt secured against the properties, the assumption of certain other liabilities, and a reduction of the development partner's debt obligations to the Company.

5. INVESTMENT IN EQUITY ONE, INC.

The Company's investment in Equity One, expressed in thousands of dollars, consists of the following:

Investment in Equity One, September 20, 2001 (note 2)	$ 189,483
Equity income for the period ended December 31, 2001	4,080
Less: Dividends received	(4,481)
Cumulative currency effect since September 20, 2001	1,692
Investment in Equity One, December 31, 2001	$ 190,774

The investment is adjusted, under the equity basis of accounting, to include the Company's share of post-acquisition earnings of Equity One and any additional contributions, distributions or movements in the Canadian and United States dollar exchange rate.

The closing price on the NYSE of Equity One's common shares at December 31, 2001 was US $13.74 per share. The book value per share of the Company's investment in Equity One at December 31, 2001 is US$11.41. At December 31, 2001, 28.6 million shares of Equity One were outstanding, 10.5 million shares of which were held by the Company.

The Company's share of Equity One's unremitted funds from operations using Canadian generally accepted accounting principles ("GAAP") and expressed in thousands of Canadian dollars, which has not been included in the Company's funds from operations, is as follows:

	2001
Equity One's funds from operations, Canadian GAAP	$ 16,113
Company's ownership percentage of Equity One	36%
Company's share of Equity One's funds from operations	5,774
Less: dividends received by the Company	(4,481)
Company's share of Equity One's unremitted funds from operations	$ 1,293

6. AMOUNTS RECEIVABLE

Amounts receivable, expressed in thousands of dollars, consist of the following:

	2001	2000
Accounts receivable	$ 3,117	$ 3,639
Cash flow loans and mortgages receivable (a)	4,255	6,103
Loan receivable from a municipality (b)	1,264	1,291
Loans receivable from development partners (c)	9,225	14,125
Canadian amounts receivable	17,861	25,158
Accounts receivable	-	5,489
Loans receivable from development partners (c)	-	18,312
Mortgage receivable	-	657
U.S. amounts receivable	-	24,458
	$ 17,861	$ 49,616

(a) In connection with the 1997 acquisition of a portfolio of shopping centres, the Company acquired a 50% interest in various cash flow loans and mortgages receivable. The loans and mortgages receivable bear interest at varying rates generally ranging from 8.5% to 10% per annum and are generally due on demand.

(b) The loan receivable from a municipality bears interest at the rate of 8% per annum, calculated and compounded quarterly, and is repayable quarterly over a 25-year period, maturing in December 2021.

(c) The Company has funded its partners' share of certain development activities. The loans bear interest at varying rates ranging from 9% to 10% per annum and are repayable from the development partner's share of proceeds generated from refinancings or sales. The Company has taken assignments of the development partners' debt and equity interests in the development partnerships as security for the loans receivable.

The fair values of the loans and mortgages receivable at December 31, 2001 and 2000 approximate their carrying values.

The Company is exposed to credit risk to the extent that debtors fail to meet their obligations. This risk is alleviated by minimizing the amount of exposure the Company has to any one tenant, ensuring a diversified tenant mix and by the hypothecated properties.

7. OTHER ASSETS

Other assets, expressed in thousands of dollars, consist of the following:

	2001	2000
Deferred financing, issue and interest rate hedge costs	$ 5,880	$ 6,231
Investment in marketable securities	291	15,809
Prepaid expenses and other assets	6,762	2,706
Canadian other assets	12,933	24,746
Deferred financing, issue and interest rate hedge costs	637	7,828
Investment in marketable securities	2,554	-
Prepaid expenses and other assets	-	5,348
U.S. other assets	3,191	13,176
	$ 16,124	$ 37,922

Based on its publicly listed trading price, as at December 31, 2001 the market value of the Company's investment in Canadian and United States marketable securities was $3.2 million (2000 – $15.6 million).

8. MORTGAGES PAYABLE AND CREDIT FACILITIES

Mortgages payable and credit facilities, secured by shopping centres and the Equity One common shares, presented by geographic location and expressed in thousands of dollars, consist of the following:

	2001			2000
	Canada	U.S.	Total	Total
Fixed rate	$ 359,575	$ 15,928	$ 375,503	$ 500,487
Floating rate	4,365	80,488	84,853	97,831
	$ 363,940	$ 96,416	$ 460,356	$ 598,318

Canada:

Fixed rate financing bears interest at an average fixed rate of 7.6% (2000 – 7.8%) and matures in years ranging from 2002 to 2019. Floating rate financing bears interest at floating rates determined by reference to Canadian prime lending and bankers' acceptance rates and matures in 2002.

United States:

Fixed rate financing bears interest at an average fixed rate of 6.1% (2000 – 8.1%) and matures in 2006. Floating rate financing bears interest at a floating rate determined by reference to the London Inter-Bank Offering Rate and to the U.S. prime-lending rate and matures in 2007.
Floating rate financing of $15.9 million (US $10.0 million) has been capped at 7.0% for five years.

As at December 31, principal repayments of mortgages payable, expressed in thousands of dollars, are due as follows:

	2001		
	Canada	U.S.	Total
2002	$ 52,393	$ 4,900	$ 57,293
2003	14,723	4,817	19,540
2004	12,233	4,817	17,050
2005	9,712	4,817	14,529
2006	33,316	4,817	38,133
Thereafter	241,563	72,248	313,811
	$ 363,940	$ 96,416	$ 460,356

The fair values of mortgages payable at December 31, 2001 and 2000 approximate their carrying values.

The Company is exposed to financial risks arising from fluctuations in interest rates that could cause a variation in earnings. The Company periodically enters into interest rate swap transactions to fix interest rates on current or future outstanding debt.

As part of its risk management program, the Company endeavors to maintain an appropriate mix of fixed rate and floating rate debt and strives to match the nature and timing of lease inflows to financing thereon.

Subsequent to the completion of the Equity One transaction, the Company, through U.S. subsidiaries, obtained a $94.7 million (US $60.0 million), five-year credit facility at LIBOR plus 150 basis points. This facility was subsequently increased to $111.5 million (US$70 million). The facility is for acquisitions, debt repayment, and general corporate purposes and is secured by the Equity One shares. As at December 31, 2001, $96.4 million (US $60.5 million) has been drawn on this facility.

The Company has entered into interest rate swap agreements with a notional amount of $15.9 million (US$10.0 million). Under the terms of these swap agreements, the Company pays a fixed rate of interest at the rate of 5.5% on the notional amount and receives a floating rate interest on the same notional amount based on LIBOR. These swap agreements mature in September 2006.

At December 31, 2001, the Company has available undrawn lines of credit, which are secured by certain shopping centres, amounting to $36.0 million.

9. CONVERTIBLE DEBENTURES

As at December 31, 2001, the Company has outstanding four series of convertible debentures. All of the debentures are unsecured subordinated debentures, require interest payable semi-annually and are convertible into common stock of the Company at the holders' option until the day prior to the redemption date. In addition, the Company has the right to settle its obligations to repay principal upon redemption or maturity by issuing common stock. If the Company chooses to issue common stock, it is to be valued at 95% of the weighted average trading price for the 20 consecutive trading days ending five days prior to the redemption or maturity date, as may be applicable. In the case of the 7.0% and the 7.25% series, the Company also has the option, subject to regulatory approval, of settling interest due from time to time by way of the issue of common shares valued in the same fashion as with respect to the repayment of principal on those debentures.

The other terms of the convertible debentures are summarized as follows:

Series	Conversion Price	Maturity	Earliest Redemption Date
8.5% convertible debentures	$15.50 per common share	November 30, 2006	November 30, 2002
7.875% convertible debentures	$17.00 per common share	January 31, 2007	January 31, 2003
7.0% convertible debentures	$23.50 per common share	February 28, 2008	February 28, 2004
7.25% convertible debentures	$25.25 per common share	June 30, 2008	June 30, 2004

The components of the convertible debentures, expressed in thousands of dollars, are classified as follows:

	2001			2000	
Series	Principal	Liability	Equity	Liability	Equity
8.5% convertible debentures	$ 57,441	$ 18,713	$ 39,964	$ 21,391	$ 36,694
7.875% convertible debentures	97,522	30,683	68,980	35,094	63,835
7.0% convertible debentures	99,999	-	100,538	-	99,823
7.25% convertible debentures	100,000	-	100,231	-	99,547
	$ 354,962	$ 49,396	$ 309,713	$ 56,485	$ 299,899

Based on publicly listed trading prices, as at December 31, 2001, the market value of the principal amount of the convertible debentures was $315.3 million (2000 – $257.6 million).

10. DEBENTURES PAYABLE

The Company's 7.5% debentures, totaling $37.9 million (2000 - $38.2 million), mature on December 1, 2003 and bear interest at a rate of 7.5% per annum, payable semi-annually. These debentures are subordinated direct obligations of the Company, secured by a floating charge on real and immoveable property comprising four of the Company's shopping centres.

Based on publicly listed trading prices, as at December 31, 2001, the market value of the 7.5% debentures was $37.6 million (2000 – $32.2 million).

11. SHAREHOLDERS' EQUITY

Shareholders' equity, expressed in thousands of dollars, consists of the following:

	2001	2000
Equity component of convertible debentures (note 9)	$ 309,713	$ 299,899
Share capital	154,499	154,498
Advisory warrants	2,000	2,000
Cumulative currency translation adjustment	12,683	11,201
Deficit	(69,324)	(70,921)
	$ 409,571	$ 396,677

The Company has an unlimited number of authorized preference shares and common shares. The preference shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution; preference shares are non-voting and rank in priority to the common shares with respect to dividends and distributions upon dissolution. The common shares carry one vote each and participate equally in the earnings of the Company and the net assets of the Company upon dissolution. Dividends are payable on the common shares as and when declared by the Board of Directors.

The Company maintains its accounts in Canadian dollars. However, a portion of its operations are located in the United States and therefore the Company is subject to foreign currency fluctuations which may, from time to time, impact its financial position and results. The Company's U.S. operations are financed in part by U.S.-dollar denominated credit facilities, which are fully serviced by the cash flow generated by the Company's dividends from Equity One. This reduces the Company's exposure to fluctuations in foreign currency exchange rates. The Company has not hedged its U.S. dollar currency risk. As a result, a strengthening of the Canadian dollar would result in a reduction in the carrying value of the Company's net assets in the United States.

The cumulative currency translation adjustment represents the cumulative unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States. The change for the year reflects the impact of the Equity One transaction and U.S. currency movements at December 31, 2001 relative to the exchange rate in effect as at December 31, 2000 on these net assets.

The rate of exchange in effect on December 31, 2001 was US$1.00 = Cdn $1.59 (2000 – Cdn $1.50). The average rate of exchange during 2001 was US$1.00 = Cdn $1.55 (2000 – Cdn $1.48).

The following table sets forth the particulars of the issued and outstanding shares of the Company:

	Number of Common Shares	Stated Capital (thousands of dollars)
Issued and outstanding at December 31, 1999	15,070,323	$ 150,293
Issued in connection with convertible debenture conversions	573,263	6,549
Common shares purchased and cancelled	(266,600)	(2,344)
Issued and outstanding at December 31, 2000	15,376,986	154,498
Issued in connection with convertible debenture conversions	38	1
Issued and outstanding at December 31, 2001	15,377,024	154,499

During fiscal 2001, no shares were purchased by the Company (2000 – 266,600 shares) under its normal course issuer bid.

In October 1998, the Company received securities commission approval to issue 1,250,000 stock options to its directors, officers and the management personnel of both the Advisor and the Property Manager (see note 14). As at December 31, 2001, the Company had issued and outstanding, to its Property Manager's employees, officers, and directors, 480,000 outstanding stock options (2000 – 487,500) at an exercise price of $14.30 which vest 20% annually and expire in October 2008. As at December 31, 2001, no stock options had yet been exercised. During 2001, 7,500 stock options were cancelled (2000 – 350,000). In January 2002, 5,000 options were cancelled and 774,500 options were issued to the Company's officers and directors at an exercise price of $12.85, which generally vest over three years and expire in 2012.

12. INTEREST EXPENSE ON MORTGAGES

Interest expense incurred on mortgages, expressed in thousands of dollars, consists of the following:

	2001	2000
Total interest cost	$ 44,158	$ 43,052
Less interest capitalized:		
Land and shopping centres under development and redevelopment	(2,137)	(3,121)
	$ 42,021	$ 39,931

13. CORPORATE EXPENSES

Corporate expenses, expressed in thousands of dollars, consist of the following:

	2001	2000
Annual base incentive fees	$ -	$ 1,181
Capital taxes	1,024	949
General and administrative	5,957	3,159
	$ 6,981	$ 5,289

14. PROPERTY AND ASSET MANAGEMENT FEES

Centrecorp Management Services Limited (the "Property Manager"), a corporation formerly controlled by two of the Company's former directors, acts as the Company's property manager pursuant to a Property Management Agreement made February 15, 1994. The Property Management Agreement expires March 29, 2004. The Property Manager is responsible for all property management functions, including property administration, maintenance and leasing.

The fees earned by the Property Manager, expressed in thousands of dollars, are summarized as follows:

	2001	2000
Property and asset management fees	$ 2,894	$ 5,153
Construction supervision fees	665	990
Leasing fees	1,466	3,152
Overhead cost reimbursements	811	899
	$ 5,836	$ 10,194

The Property Manager also received a portion of the incentive fees paid to Dawsco Realty Advisory Corp. (see note 15), a private Ontario corporation controlled by two of the Company's former directors, one of whom was the Chairman, President and Chief Executive Officer of the Company until August 18, 2000.

For the year ended December 31, 2001, the Company's share of development overhead cost reimbursements advanced to the Property Manager was nil (2000 – $2.0 million).

From August 15, 2000 until September 20, 2001, Equity One Realty & Management Inc. ("Equity One Realty"), a wholly owned subsidiary of Equity One, was retained by the Company as an asset manager of the Company's United States portfolio. Equity One Realty earned an amount of $0.6 million in 2001 (2000 - $0.5 million) under the terms of the agreement.

From November 30, 2000 until September 20, 2001, Equity One Realty was retained as property manager of the majority of the Company's Florida property. Equity One Realty earned $0.5 million in 2001 (2000 - $0.1 million) under the terms of the agreement.

In December of 2001, the Company formed a joint venture with the Property Manager to provide property management, operations, leasing and project management services in respect of shopping centre properties located in the province of Quebec. Operations commenced on December 1, 2001, and each partner has a 50% interest in the joint venture. During 2001, the Company earned $6,000 in income from the joint venture. The joint venture agreement ends in March 2004.

During the year, the Company earned asset management fees from an entity controlled by Gazit in the amount of $0.2 million (2000 - nil) with respect to Gazit's shopping centre business in Quebec.

15. RELATED PARTY TRANSACTIONS – ADVISOR'S FEES

Dawsco Realty Advisory Corp. (the "Advisor"), a private Ontario corporation controlled by two of the Company's former directors, one of whom was the Chairman, President and Chief Executive Officer of the Company until August 18, 2000, was responsible for managing and administering all the affairs of the Company, pursuant to an Advisory Agreement dated February 15, 1994 (the "Advisory Agreement') and subsequently revised effective January 1, 2000. The Advisory Agreement was terminated in accordance with its terms on August 18, 2000 (see note 16).

The fees paid, advanced or accrued to the Advisor, expressed in thousands of dollars, are summarized as follows:

	2001	2000
Annual incentive fees (a)	$ -	$ 1,519
(Recovery of) fair value incentive amount and other fees (note 16)	(9,150)	37,386
Annual base incentive fees (b)	-	1,181
	$ (9,150)	$ 40,086

(a) **Annual Incentive Fees**
Until August 17, 2000 (see note 16), the Advisor was entitled to earn an annual incentive fee equal to 20% of the amount by which the aggregate net property cash flow and the aggregate net sale proceeds generated by the Company's shopping centre portfolio, and other related assets, exceed 10% of the aggregate equity invested in such portfolio and other assets.

(b) **Annual Base Incentive Fees**
Until August 17, 2000, an annual base incentive fee of $2 million (increased by 10% calculated and compounded annually commencing January 1, 2001) was to be paid under the Advisory Agreement. An amount of $1.18 million was paid under this agreement in 2000. For the period up to the date of termination of the Advisory Agreement, on the change of control (see note 16) under the terms of the amended Advisory Agreement, the total amount payable to the end of the contract term was accelerated and resulted in a further $8.84 million payment.

16. RECOVERY OF PREVIOUS MANAGEMENT'S INCENTIVE AND OTHER FEES

On August 17, 2001, the Company settled the Fair Value Incentive Amount dispute with the Advisor. On termination of the Advisory Agreement, which occurred on August 18, 2000, in accordance with its terms, the Advisor became entitled to receive a Fair Value Incentive Amount equal to 20% of the excess of the fair market value of the Company's shopping centre portfolio and other related assets over the aggregate of:

(a) the recorded cost of such portfolio and assets, determined at the termination date; and

(b) the aggregate amount required to have provided the Company since March 29, 1994 with a 10% compound, cumulative annual return on the average aggregate equity allocable to such portfolio and assets, net of annual incentive fees paid to the Advisor and after taking into consideration aggregate net property cash flow and aggregate net sale proceeds received with respect to such portfolio and assets.

Former management of the Company, which included the Company's former Chairman, President and Chief Executive Officer, who also controlled the Advisor, calculated and accrued the Fair Value Incentive Amount to be $21.35 million. This amount was recorded after an offer by the Gazit Group (the "Offer") to acquire a controlling interest in the Company in June 2000 and $9.2 million was advanced to the Advisor. Current management of the Company disputed the calculation of the Fair Value Incentive Amount and other amounts, including amounts that had been advanced.

The Fair Value Incentive Amount has been settled at the $9.2 million amount already advanced. A recovery of expenses, before income taxes, of approximately $8.5 million (approximately $5.4 million net of income taxes) has been recorded in 2001.

The previous management's incentive fees and certain other costs, primarily associated with the Company's consideration of the Offer, and the cost of canceling the property management contract as it pertains to the Florida property portfolio, in accordance with the settlement agreement dated August 15, 2000, expressed in thousands of dollars, are summarized as follows:

	2001	2000
(Recovery of) provision for fair value incentive amount	$ (8,150)	$ 17,350
(Recovery of) provision for Canadian property management agreement	(1,000)	4,000
	(9,150)	21,350
Acceleration of annual base incentive fee	-	8,836
Fair value and annual incentive amendment fees	-	7,200
	(9,150)	37,386
Termination of employment contract and other costs	-	4,351
Property management cancellation fees	-	1,850
Investment banking fees	-	4,439
Legal and other professional fees	612	2,099
	$ (8,538)	$ 50,125

17. INCOME TAXES

The Company's activities are carried out directly and through operating subsidiaries, and partnership ventures and trusts in Canada and the United States. The income tax effect on operations depends on the tax legislation in each country and the operating results of each subsidiary and partnership venture and the parent Company.

The provision for income and other taxes, expressed in thousands of dollars, is calculated as follows:

	2001	2000
Provision for (recovery of) income taxes on income at the combined Canadian federal and provincial income tax rates	$ 20,154	$ (6,909)
Increase (decrease) in the provision for income taxes due to the following items:		
Large Corporations Tax	1,600	1,350
U.S. current income and withholding taxes	1,962	495
	3,562	1,845
Reduction in future income tax rates	353	2,584
Impairment of tax losses	-	2,064
United States operations - other	(7,155)	(1,804)
Canadian operations - other	(624)	1,368
	(7,426)	4,212
	$ 16,290	$ (852)

The Company's net future income tax assets, expressed in thousands of dollars, are as follows:

	2001	2000
Net future income tax assets:		
Losses available for carry-forward	$ 16,436	$ 19,379
Shopping centres	5,776	(20,155)
Investments	(4,800)	-
Other assets	1,584	15,043
Canadian and U.S. minimum tax credits	352	2,129
	$ 19,348	$ 16,396

At December 31, 2001, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately $49.7 million, which have been recognized as future income tax assets and are available to reduce future Canadian taxable income. These tax-loss carry-forwards expire at various dates between December 31, 2003 and December 31, 2008.

18. PER SHARE INFORMATION

(i) **Number of shares**

Basic per share information for the year ended December 31, 2001 was calculated based on a weighted average of 15,377,001 common shares outstanding during the year (December 31, 2000 – 15,200,291 common shares).

Diluted per share information for the year ended December 31, 2001 was calculated based on a weighted average of 33,035,160 common shares (December 31, 2000 – 32,858,465 common shares), which reflects the conversion of the convertible debentures. The diluted per share information for the year ended December 31, 2001 does not reflect the exercise of 1,000,000 outstanding warrants (2000 – 1,000,000 warrants) or 480,000 issued options (2000 – 487,500 options) as their conversion prices were higher than the average price of the Company’s common shares during the year.

(ii) **Funds from operations per common share**

For the year ended December 31, 2001, funds from operations was increased by the recovery of previous management's incentive and other fees totaling $8.5 million (see note 16). In 2000, funds from operations was decreased by the provision for previous management's incentive and other fees totalling $50.1 million (see note 16). These items, although part of operating income, are not considered by management to be a normal or recurring part of operations.

Funds from operations per common share before the (recovery of) previous management's incentive and other fees was as follows:

	2001	2000
Funds from operations per common share before (recovery of) previous management's incentive and other fees		
Basic	$ 2.46	$ 2.85
Diluted	$ 1.31	$ 1.48

In accordance with Canadian GAAP, the determination of funds from operations per share excludes $21.7 million of cash interest paid relating to the convertible debentures, net of interest expensed.

In accordance with Canadian GAAP, the determination of funds from operations per share also excludes $1.3 million relating to the Company's share of Equity One's unremitted funds from operations (see note 5).

19. SEGMENTED INFORMATION

The Company and its subsidiaries operate in the shopping centre segment of the real estate industry in both Canada and the United States.

Operating income by geographic segment for the year ended December 31, 2001, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	$ 97,866	$ 42,814	$ 140,680
Property operating costs	35,103	14,581	49,684
Rental income	62,763	28,233	90,996
Equity Income from Equity One, Inc.	-	4,080	4,080
Interest and other income	4,259	1,948	6,207
	67,022	34,261	101,283
Interest expense:			
Mortgages and credit facilities	26,216	15,805	42,021
Debentures	8,008	-	8,008
	34,224	15,805	50,029
Corporate expenses	5,535	1,446	6,981
Operating income before the following items	27,263	17,010	44,273
Amortization	7,889	5,207	13,096
Recovery of previous management's incentive and other fees	4,722	3,816	8,538
Operating income	$ 24,096	$ 15,619	$ 39,715

Operating income by geographic segment for the year ended December 31, 2000, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	$ 87,608	$ 60,285	$ 147,893
Property operating costs	35,533	19,452	54,985
Rental income	52,075	40,833	92,908
Interest and other income	3,999	3,552	7,551
	56,074	44,385	100,459
Interest expense:			
Mortgages	22,301	17,630	39,931
Debentures	8,683	-	8,683
	30,984	17,630	48,614
Corporate expenses	3,812	1,477	5,289
Operating income before the following items	21,278	25,278	46,556
Amortization	6,468	5,871	12,339
Previous management's incentive and other fees	27,384	22,741	50,125
Operating loss	$ (12,574)	$ (3,334)	$ (15,908)

20. JOINT VENTURES

The Company participates in joint ventures that own land, shopping centres, and shopping centres under development.

The following amounts, expressed in thousands of dollars, are included in the consolidated financial statements and represent the Company's proportionate interest in the financial accounts of the joint ventures:

	2001	2000
Assets	$ 44,534	$ 76,691
Liabilities	$ 20,796	$ 56,030
Revenues	$ 5,326	$ 5,319
Expenses	$ 4,144	$ 6,721
Cash flow provided by (used in):		
Operating activities	$ 2,836	$ 1,524
Financing activities	$ 3,627	$ 25,065
Investing activities	$ (5,443)	$ (26,880)

The Company is contingently liable for certain of the obligations of the partnership ventures and all of the net assets of the partnership ventures are available for the purpose of satisfying such obligations and guarantees (see note 21(a)).

21. CONTINGENCIES

(a) The Company has provided guarantees for approximately $5.4 million (2000 – $60.1 million) to various lenders in connection with loans advanced to its joint venture partners.

(b) The Company is also contingently liable for letters of credit in the amount of $6.9 million (2000 – $11.9 million) issued in the ordinary course of business.

22. SUBSEQUENT EVENTS

On January 31, 2002, the Company acquired a portfolio of six shopping centres for a total purchase price of approximately $58 million, which was satisfied by ten-year mortgage debt on four of the six centres totalling approximately $27.4 million at 7.07% with the balance paid in cash. The portfolio consists of neighbourhood and community supermarket-anchored shopping centres in the greater Montreal area with approximately 800,000 square feet of gross leasable area.

On February 1, 2002, the Company announced that it had entered into discussions with Gazit to acquire Gazit's Canadian shopping centre business. This portfolio is comprised of six neighbourhood and community centres and two freestanding retail buildings, with approximately 800,000 square feet of gross leasable area. These properties are all located in the greater Montreal area. These discussions are at a preliminary stage and there can be no assurance that they will result in agreements or a transaction.

On February 27, 2002, the Company announced that it intends to offer all holders of its common shares rights to subscribe for common share purchase warrants. Under the terms of the rights offering, each shareholder will be entitled to one right for each common share held on the record date. A holder of rights will be entitled to subscribe for one common share purchase warrant for each 1.25 rights held at a price of $0.05 per warrant. Each warrant will entitle the holder to purchase one common share of First Capital Realty. The terms of the rights offering remain subject to regulatory approval.

23. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to reflect the current year's presentation.

CORPORATE INFORMATION

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Chairman
First Capital Realty Inc.

Dori Segal
Vice-Chairman and President
First Capital Realty Inc.

Gary M. Samuel (1) (2)
Partner
Crown Realty Partners

Steven K. Ranson (1) (2)
President and Chief Executive Officer
Canadian Home Income Plan Corporation

John Harris (1) (2)
Real Estate Investor

Nathan Hetz (1)
Chief Executive Officer
Alony Hetz Properties & Investments Ltd.

Moshe Ronen (2)
Barrister & Solicitor

Richard J. Steinberg
Partner
Fasken Martineau DuMoulin LLP

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Sylvie Lachance
Executive Vice-President
Eastern Canada

Frank Bucys
Chief Financial Officer

Richard J. Steinberg
Secretary

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(1) Member of Audit Committee (2) Member of Corporate Governance Committee

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TORONTO STOCK EXCHANGE LISTINGS

Common shares: FCR
7.5% debentures: FCR.DB
8.5% convertible debentures: FCR.DB.A
7.875% convertible debentures: FCR.DB.B
7% convertible debentures: FCR.DB.C
7.25% convertible debentures: FCR.DB.D
Warrants: FCR.WT

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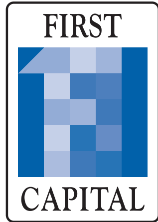

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