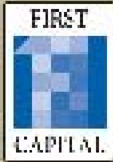
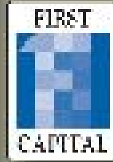


First Capital Realty Inc.

ANNUAL REPORT 2004



Shopping For Everyday Life

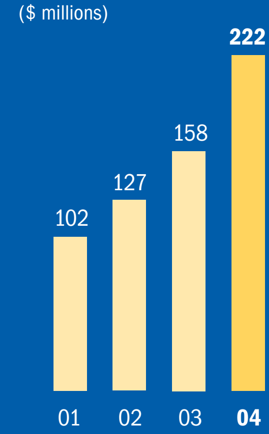
Shopping For Everyday Life

First Capital Realty is Canada's leading owner, developer and operator of neighbourhood and community supermarket anchored shopping centres. Our properties are where consumers shop for everyday life – the daily purchases that add up to hundreds of billions of dollars in North America every year. Over 90% of our portfolio is anchored by a major grocery or drug store, the two most popular destinations for everyday shopping. First Capital is also the second largest shareholder of Equity One (NYSE: EQY), one of the largest shopping centre REITs in the southern United States.

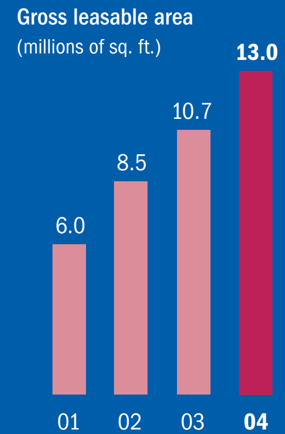
Financial Highlights

('000s except per share amounts)		2004		2003
Real estate investments	$	1,831,717	$	1,496,133
Revenues	$	221,502	$	157,572
Net operating income	$	132,818	$	96,201
Funds from operations (FFO)	$	86,855	$	60,053
FFO per diluted share	$	1.47	$	1.38
Dividends per share	$	1.17	$	1.14
Number of properties		104		82

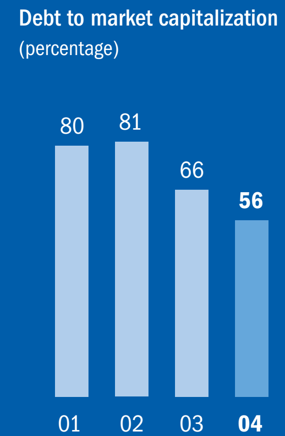
Increasing revenue – Canada



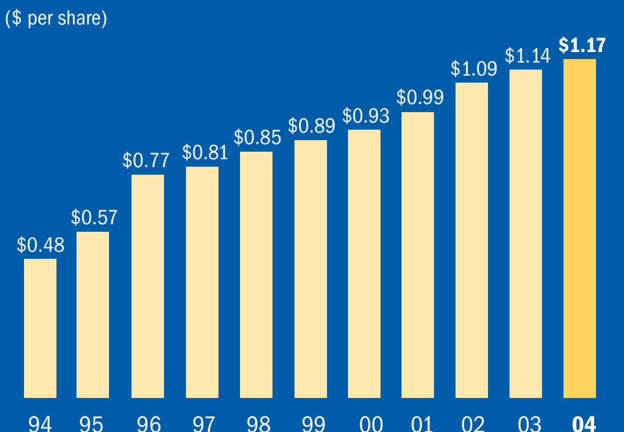
Growing the business



Improving financial strength



Growing dividends



Why Invest in First Capital Realty?

1 Our Business

First Capital Realty owns, develops, and operates neighbourhood and community supermarket anchored shopping centres.

These shopping centres provide customers with their everyday basic needs such as groceries, prescription drugs, personal care items, household supplies, fast food restaurants, banking and other personal services.

Our shopping centres are located in and around Canada's largest urban markets, including Toronto, Montreal, Vancouver, Ottawa, Edmonton, Calgary, and Quebec City. We target specific urban markets with high barriers to entry, and with stable and growing demographics.

2 Continued Growth

We grow our business through acquisitions, selective development and pro-active management of our portfolio.

Acquisitions increase the size and enhance the quality of our portfolio. We acquire well-located neighbourhood and community shopping centres in growing urban markets and seek to achieve critical mass in our markets to generate economies of scale and operating synergies.

Selective development of new properties allows better participation in growth markets and enhances returns. Development activities are strategically managed to reduce risks and properties are developed after obtaining anchor lease commitments. These investments typically comprise less than 5% of the Company's total assets at any one time.

We pro-actively manage our existing portfolio by investing in our properties to ensure they remain attractive to quality retail tenants and their customers over the long term. Specifically, we strive to create and maintain the highest standards in such elements as parking, lighting, signage, facades and access points.

3 Financial Strength

Our successful growth strategy and financial discipline have resulted in a strong financial position for the Company. At year end, our overall debt as a percentage of our market capitalization is 56%, down from 88% only four years ago. We will maintain financial discipline while continuing to grow our business.

4 10 Year Dividend History

We believe our properties are somewhat less susceptible to economic cycles and thus will generate sustainable and growing cash flow over the long term.

Since the first full year of operations in 1994, the Company has paid regular dividends. The annual dividend is paid quarterly, has increased in each of the past ten years and is currently being paid at an annual rate of $1.20 per share.

A growth strategy applied to a stable business.

First Capital Realty at a Glance

2004 Operating Highlights

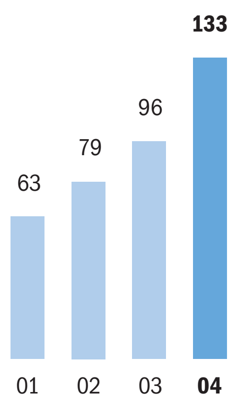
- Revenue increased 41% to $222 million
- Net operating income increased 38% to $133 million
- Invested $381 million in acquisitions, development activities and property improvements
- Added 2.3 million square feet of gross leasable area
- Funds from operations increased 45% to $86.9 million
- FFO per diluted share is up 7% to $1.47
- Average rent per occupied square foot grew 4% to $13.17

Sustainable Cash Flow

- 104 of 111 properties are supermarket and/or drug store anchored
- Top 30 tenants provide 58% of annual rents, 72% of which are backed by investment grade credit ratings
- Occupancy has increased 1% to 94.1%
- Same property net operating income increased 1.3%
- Debt to market capitalization improved to 56% from 66.1%

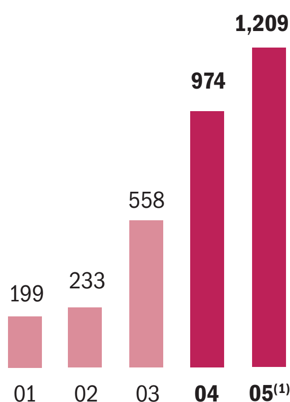
Net operating income – Canada

($ millions)



Equity market capitalization

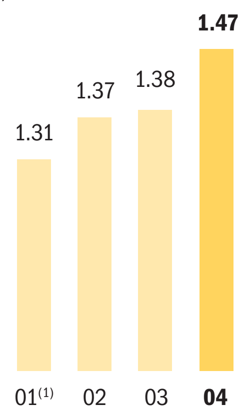
($ millions)



(1) March 31

Funds from operations per diluted share

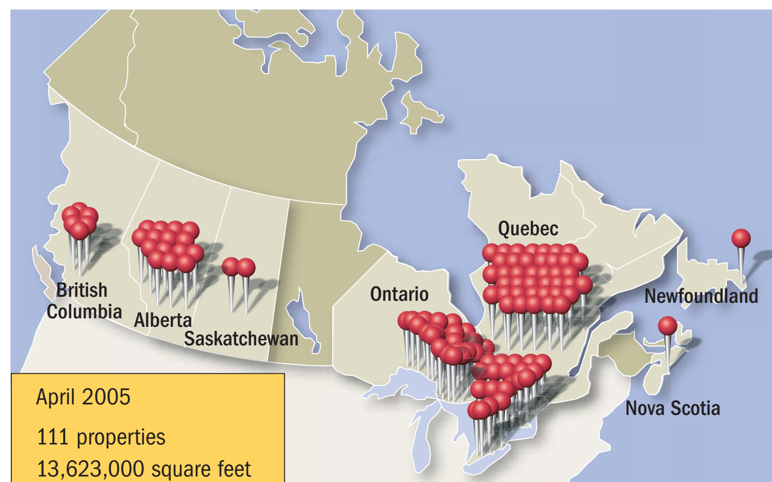
($)



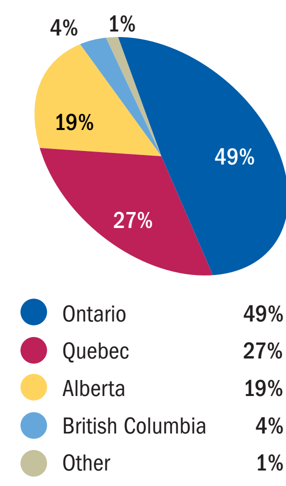
(1) Prior to one-time cost recovery

Geographic Diversification

We own a quality portfolio of supermarket and drug store anchored shopping centres in growing urban areas, primarily in Ontario, Quebec, Alberta and British Columbia. The Company targets specific urban markets with high barriers to entry, and with stable and growing demographics.



Annual minimum rent by province



Ontario	49%
Quebec	27%
Alberta	19%
British Columbia	4%
Other	1%

ONTARIO
Ajax (2)
Brampton (2)
Brantford
Burlington
Cambridge
Grimsby
Hamilton
Kitchener
London (3)
Markham
Mississauga (2)
Newmarket
Oakville
Ottawa (5)
Peterborough (2)
Pickering
St. Catharines
Stratford
Tillsonburg (2)
Toronto (8)
Waterloo (3)
Whitby (2)
Windsor (2)

QUEBEC
Delson
Chateauguay
Chicoutimi
Gatineau (5)
Ile Perrot (2)
Lachenaie
Laval (3)
Levis
Longueuil (4)
Montreal (14)
Mont Tremblant
Quebec City (2)
Repentigny (2)
Sept Iles
Sherbrooke
Trois Rivieres

ALBERTA
Calgary (5)
Edmonton (3)
Lethbridge
Red Deer (2)
Sherwood Park (3)
St. Albert

BRITISH COLUMBIA
Abbotsford
Delta
Langley
Richmond
Vancouver (2)

SASKATCHEWAN
Regina (2)

NEWFOUNDLAND
St. John's

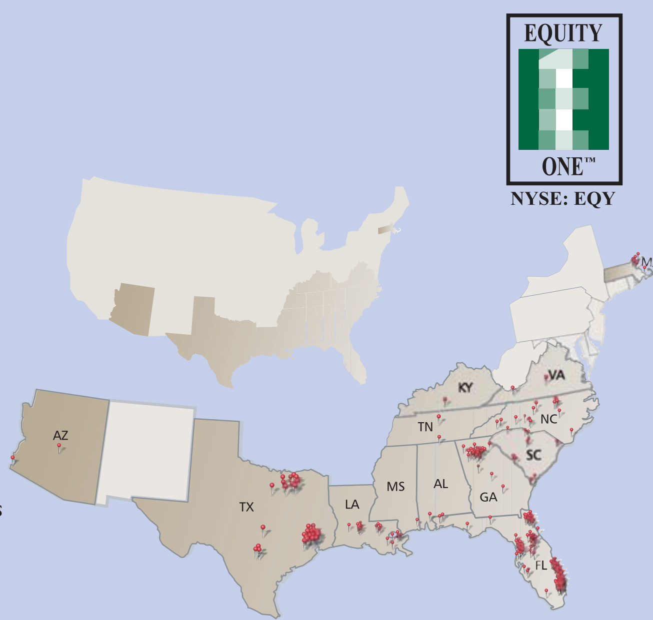
NOVA SCOTIA
Dartmouth

Unique U.S. Participation with Equity One

First Capital Realty is the second largest shareholder (12.9 million shares) of Equity One, Inc., a publicly traded REIT in the United States.

- Major metropolitan markets of the southern U.S. and the Boston, Massachusetts area
- 189 properties aggregating 19.7 million square feet of gross leasable area
- Neighbourhood and community shopping centres anchored by supermarkets and drug stores
- Dominant player in Florida
- Market capitalization approximately US$1.5 billion
- Investment grade credit ratings from Standard & Poor's and Moody's

EQUITY ONE™
NYSE: EQY



2004 A Year of Continued Growth

We expanded into new markets. The Company entered the Vancouver and Quebec City markets in 2004 and acquired additional properties in markets where we currently operate. Total acquisitions and development added 2.3 million square feet of gross leasable area for an investment of $381 million. **Our expansion, acquisition and development activities exceeded our own goals and expectations.**

We grew our business. Portfolio growth generated a 38% increase in net operating income, and a 45% rise in funds from operations. **Both of these measures exceeded our goals.**

We strengthened our financial position. Capital market activities reduced our ratio of total debt to market capitalization to 56% from 66%. **This strengthening in our balance sheet was accomplished faster than we anticipated.**

We achieved accretive growth. Funds from operations per diluted share is up 7% despite a 30% rise in the weighted average number of diluted shares. **We met our goal for growth in FFO per diluted share for 2004.**

We distributed more cash to our shareholders. We increased our common share dividends in 2004, for the tenth consecutive year. **We met our goal of moderately increasing dividends to shareholders.**

2005 Goals

Growth in FFO per diluted share

Our objective is to generate absolute and accretive growth, as measured by FFO and FFO per diluted share. In 2005, with a more competitive and challenging marketplace, our goal is to grow FFO per diluted share by 3% to 5% primarily through acquisitions, development and pro-active management.

Expand portfolio through acquisitions and development

We will continue to expand our portfolio through the acquisition and development of supermarket and drug store anchored neighbourhood and community shopping centres located in growing urban markets. In 2005, our target is to acquire and develop income-producing properties of over $200 million.

Maintain financial discipline

We start the year with a solid financial position, which will support our growth plans for the long term. First Capital's objective, based on current market conditions, is to maintain a debt to market capitalization ratio in the range of 55% to 65%.

Full internalization

We will fully internalize all property management functions, through taking in-house all leasing, development, construction management and tenant co-ordination. Basic property management services will be provided through FCB, a Retail Tenant Services Partnership of First Capital Realty and BLJC.

Message to Shareholders

Capitalizing on our achievements last year, and indeed our ability to deliver solid returns to our investors through any real estate cycle, will depend on our adherence to a set of principles established long before we assumed management of First Capital Realty in 2000. These principles include having a clear, consistent and long-term business strategy, having a good group of people to execute it, and maintaining a strong financial position. Underpinning these principles is our strong commitment to enrich our shareholders. We are very proud of what we have done in the last few years but we all understand that ultimately the only thing that matters is how we perform going forward.

2004 was another year in which we significantly grew our business, expanded our portfolio and generated strong financial performance. We added 2.3 million square feet of leasable space to our asset base, which, including our investment in Equity One, now totals over $2 billion in value. We produced a 45% increase in funds from operations, further strengthened our balance sheet and increased common share dividends for the tenth year in a row. Most importantly, we accomplished all this despite an increasingly competitive real estate environment.

A Strategy First...

First Capital Realty's goal to become Canada's dominant player in the neighbourhood and community supermarket anchored shopping centre asset class has been achieved. Our properties provide Canadians with most of the everyday needs, products and services they require regardless of economic cycles. As a result, we believe that utilizing our proven management skills, our portfolio will continue to provide sustainable and growing cash flow over the long term.

Like many of my colleagues in the industry, I believe real estate is a real business rather than a "baby-sitting" job for a collection of assets. We take a very pro-active approach in managing each and every one of our properties, looking after them and paying attention to their surroundings day in and day out. We talk to our tenants on a regular basis and constantly survey the competitive landscape around our properties in all our urban markets. We have both our ears to and our feet on "the ground", providing us with an in-depth knowledge of the neighbourhoods and communities in which we operate, and helping us to speedily and effectively make the right decisions for our assets as well as our tenants for the benefit of their customers.

And Our Strategy is a Growth One

Our acquisition and property development activities, supported by a team of real estate professionals located in each of our urban markets, led to 22% growth in gross leasable area of our portfolio in 2004 and more than 120% over the last three years.

While growing our portfolio we always ensure that what we buy and develop is the *right* real estate in the *right* markets. Today, we have what I believe is the best portfolio of neighbourhood and community supermarket anchored shopping centres in the country, well-located in major and growing urban markets.

Our criteria for buying or developing a new property is based on exhaustive studies and due diligence that ensures we will achieve an appropriate return on our investment for a very long time. Retail properties must be well positioned, and we will buy or develop only when we can be in a strong and growing location and where we can achieve a position of influence to attract the best tenants in that particular market.

We are also willing to pay what it takes to acquire a property that exactly suits our rigorous criteria. We take a long-term view on the returns we can achieve from our portfolio, and while we may occasionally pay more for a specific property than some of our peers, it is only when we know that over time we will achieve the appropriate return on our investment.

It's Hard Work but Someone has to Do It

Having the right strategy, being in the right asset class and focusing on creating value mean nothing unless we have the right people to execute. Thus, our second principle is

Applying a Growth Strategy to a Stable Business

to ensure we have a strong team at all levels of our business throughout the country. At First Capital Realty we have a team of dedicated, entrepreneurial and hard-working people that has more than proven themselves with our strong growth and exceptional financial performance over the last four years. In addition, all of our senior management team have invested, and continue to invest, in the Company's common shares, and have equity plans as part of their long-term compensation which aligns their interests directly with all shareholders.

Strong Financial Position

Our third principle is to maintain a solid financial position, ensuring we have the resources and the flexibility to capitalize on opportunities so we can prosper through all economic and real estate cycles. Over the last four years we have substantially strengthened our balance sheet and significantly enhanced the liquidity of our shares. These achievements have resulted in our debt to market capitalization improving to 56% at December 31, 2004 compared to 81% only two years ago. Our decisive and consistent actions created a much stronger balance sheet in an asset class category that is considered by most to be very stable.

Equity One

As our portfolio in Canada has grown, our investment in Equity One has become a smaller part of our business. Equity One continues to perform very well, providing us with an attractive return and additional diversification both in geographical areas and tenant base in the same asset class. Through 2004 Equity One continued to enhance its portfolio by acquiring high quality properties such as the Boston, Massachusetts portfolio and divesting of non-core assets.

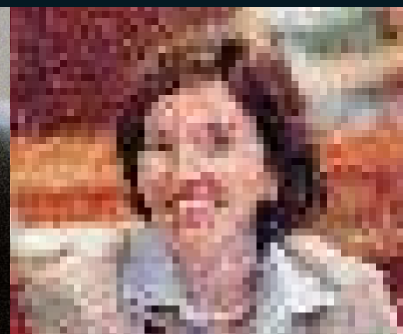
Looking Ahead

In my opinion, the easy money has now been made in the North American real estate arena. Over the past decade the combination of lower interest rates and little competition created an environment in which properties could be acquired at very attractive capitalization rates that were immediately accretive to cash flow and earnings. Through 2004, however, a significant increase in competition, from both traditional buyers as well as new institutional and foreign investors, has significantly increased demand for all sectors of real estate, driving cap rates down and reducing returns. In my view, most of these new buyers are financially driven by the continued low interest rate environment and the increased hunger for yield **right now and today**. We, on the other hand, recognize that real estate is a marathon, not a sprint.

Let me explain what I mean by a marathon. For us, the going-in return when acquiring a property is only **one** indication for value, not **the** determination of value. We are going to continue to purchase appreciating assets as opposed to just yielding assets. The properties we acquire

Senior Management Team

DORI SEGAL | KAREN WEAVER | SYLVIE LACHANCE | BRIAN KOZAK



will, over the long term, have sustainable and growing cash flow which in some cases will come from additional development and expansion opportunities. As someone very experienced in the business once told me: "real estate is a great business, a little slow in the first thirty years but afterwards it gets a lot better."

Despite these changing market dynamics, we are confident we can continue to grow our portfolio through selective acquisitions and development activities that create real value over the long term. Our goal in 2005 is to purchase and develop over $200 million in new properties. What will, of course, help us achieve this goal is our considerable inventory of land and our ongoing development and re-development projects.

The Only Publicly Traded "Private Collection"

As we all know there are a number of "private collections" of urban retail properties that are owned by clever business-people who have accumulated significant wealth through long-term appreciation of their real estate holdings. These privately owned properties or portfolios are generally not for sale, in my view, because among other things, the public capital markets simply won't place a high enough value premium on them. At First Capital Realty we have carefully and consistently through acquisition and development accumulated, mostly by one off-transactions, a portfolio of this quality that we believe will create long-term appreciation. To be perfectly clear, our properties are our shareholders' "private collection".

And Finally...

Since we came aboard, good governance, transparency and full disclosure have been an important part of First Capital's corporate culture. Our Board of Directors is made up of a majority of independent members, and includes fully independent Audit and Corporate Governance Committees. We are committed to maintaining high standards of governance.

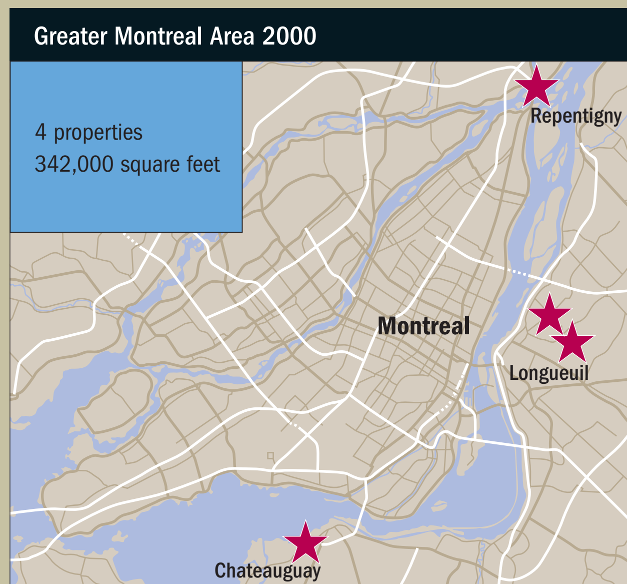
To First Capital Realty's investors, I would like to express my appreciation for your confidence. As well, I would like to thank our tenants and joint-venture partners for their support, and my fellow co-workers for their dedication and hard work. Lastly, I would like to thank our Board of Directors, under the leadership of our Chairman, Chaim Katzman, for their counsel and guidance.

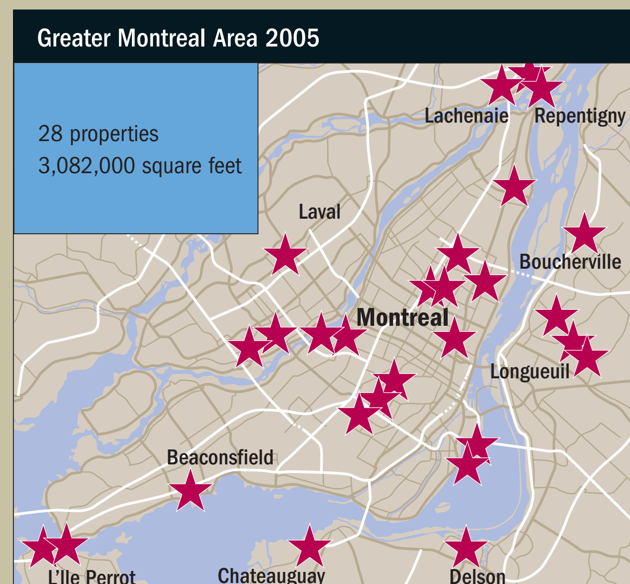
We will continue to focus on our long-term objectives in 2005 and believe we are well positioned to increase value for our shareholders, tenants and business partners for a very long time to come.

Sincerely,

DORI J. SEGAL
President and Chief Executive Officer
April 6, 2005

Growing in Key Urban Markets





In Toronto and Montreal, the two largest urban markets in Canada, First Capital Realty has aggressively grown its portfolio since 2000.

We target urban markets despite and because of their high barriers to entry. The advantage of urban retail properties is that they typically generate sustainable returns on investment, and over time, capital appreciation.

Growing Cash Flow

The Company is focused on long-term cash flow growth through acquisitions, development and pro-active management. A summary of all the properties we acquired in 2001 demonstrates our execution of these strategies and the results to date.

Brampton Corners, acquired February 2001

Brampton, Ontario — 302,000 square feet

- We developed a 12,000 sq. ft. addition, added access points and maintained the property at 100% occupancy
- The average lease rate has improved by 3% since acquisition.

Place Nelligan, acquired August 2001

Gatineau, Quebec — 59,000 square feet

- We acquired five acres of land and developed a 48,000 sq. ft. centre, after pre-leasing 40,000 sq. ft. to a supermarket.
- We acquired an adjoining 11,000 sq. ft. centre, providing better access and more retail choice for consumers.

Place Cite des Jeunes, acquired December 2001

Hull, Quebec — 58,000 square feet

- We expanded the supermarket anchor and extended their lease term.
- Our leasing activity has reduced the vacancy to 2% from 9% at acquisition.

University Plaza, acquired December 2001

Windsor, Ontario — 150,000 square feet

- We have renewed the anchor leases (1/3 of total sq. ft.) and improved the average lease rate by 11%.

2001 Acquisitions

Gross book value

($ millions)

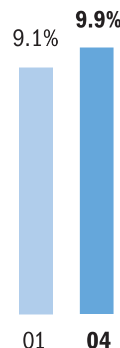
Gross leasable area

(thousands of sq. ft.)

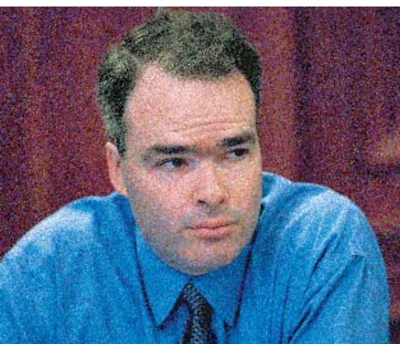
Net operating income run rate

($ millions)

Annualized yield



Review of Operations



DEREK HULL

FRANCOIS LEROUZES

BRENDAN MORLEY

GERRY MERK

Acquisitions

First Capital's experienced, entrepreneurial and hard-working acquisition team has a proven ability to source and promptly close transactions that are accretive to the Company.

Focused Acquisitions Build a Quality Portfolio

We take a highly disciplined approach to increasing the size of our property portfolio. We acquire well-located shopping centres in growing urban markets that are primarily anchored by supermarkets and/or drug stores. We seek acquisitions that are both operationally and financially accretive to the Company, over the long term, also looking for benefits from economies of scale, operating synergies and the strengthening of our competitive position in all our markets.

During 2004, we invested $263 million in the acquisition of 21 income-producing properties adding 1.9 million square feet of gross leasable area to our Canadian portfolio. A further $27 million was invested in the acquisition of development sites and land parcels for future development adjacent to properties in our existing portfolio.

The Company entered the Vancouver urban market in 2004 with the acquisition of three properties in the Vancouver area, and three further acquisitions early in 2005. We are persistently moving to achieve a position of influence in Canada's third largest urban market. These acquisitions include West Oaks Mall, a recently renovated 270,000 square foot community shopping centre and Scott 72 Centre, a 163,000 square foot community shopping

Total Investment in Properties
($ millions)

2004	Acquisitions	Development and Capital Improvements	Total
Ontario	$ 113	$ 49	$ 162
Quebec	93	23	116
British Columbia	78	–	78
Alberta	6	19	25
	$ 290	$ 91	$ 381
2003			
Ontario	$ 180	$ 40	$ 220
Quebec	39	20	59
Alberta	43	30	73
	$ 262	$ 90	$ 352

Properties

40	111
2000	April 2005

Leasable Area

5.6 million sq. feet	13.6 million sq. feet
2000	April 2005

Portfolio Growth Through Acquisitions in Urban Markets

In 2004, we acquired 21 neighbourhood and community shopping centres, all of which are anchored by a supermarket and/or drug store. We entered two new markets, Vancouver, British Columbia and Quebec City, Quebec. With the acquisition of seven properties to date in 2005, our total portfolio now consists of 111 properties, in seven urban markets across Canada.

TOP: York Mills Gardens, acquired in 2004, is a well-located 90,000 sq. ft. neighbourhood shopping centre in north-central Toronto.

LEFT, RIGHT: McKenzie Town Centre in Calgary is a new 109,000 sq. ft. centre acquired in 2003 with a unique streetscape and potential for future development.

MARYANNE MCDOUGALD

LOUIS VOIZARD

MONIQUE DUBORD

RON ODAGAKI

Development

First Capital's development and leasing team have a track record of creating value and cash flow through successful development activities from the zoning process to development completion and full occupancy.

centre. These properties are well-located in the growing Vancouver suburbs of Abbotsford and Delta respectively.

We also significantly strengthened our presence in Toronto with the acquisition of three key properties located in dense residential areas of the city adding 215,000 square feet of gross leasable area. One of these acquisitions, King Liberty, provides the Company with an additional opportunity to expand, allowing an additional 161,000 square feet of mixed use space in a downtown urban market.

Development Builds Higher Returns

Our development and redevelopment expertise adds significant value to the Company. A key to the success of our business, these activities allow First Capital Realty to better participate in growth markets and enhance returns on investment from the existing portfolio.

During 2004, 550,000 square feet of gross leasable area came on-line in more than 14 properties throughout the portfolio. In the year, First Capital invested approximately $91 million in these and other active development projects as well as improvements to its existing shopping centre portfolio.

Our 2004 developments occurred in all of our urban markets with major projects completed in Alberta, Ontario and Quebec. This activity highlights the national scope of our portfolio, and the capabilities of our development and leasing professionals across the country.

2004 Developments

Property	Location	Completed in 2004	Major Tenants
Royal Oak Centre	Calgary, AB	142,000 sq. ft.	Sobeys, London Drugs
Les Galeries de Lanaudiere	Lachenaie, QC	71,000 sq. ft.	Dollar Max, Old Navy
Sherwood Towne Square	Sherwood Park, AB	48,000 sq. ft.	Homesense, Mark's Work Wearhouse
Brooklin Towne Centre	Whitby, ON	45,000 sq. ft.	Shoppers Drug Mart, Scotiabank
Strandherd Crossing	Ottawa, ON	40,000 sq. ft.	Loeb (Metro)
Carrefour Soumande	Quebec City, QC	32,000 sq. ft.	Le Fruiterie
Carrefour du Versant	Gatineau, QC	32,000 sq. ft.	Familiprix, Dollarama
Other Properties		140,000 sq. ft.	
		550,000 sq. ft.	

Development – The Way to Participate in Growth Markets

Development allows us to better participate in growth markets. For example, in 2004, we began development of our Strandherd Crossing project in Ottawa, Ontario, which is an extremely difficult market to penetrate. We acquired a 10-acre greenfield site in June after taking it through the commercial zoning process, and with lease commitments in place, began construction on 91,000 square feet of space. Royal Oak is also an excellent example of a centre we developed, increasing our presence in the growing urban market of Calgary, Alberta. In the last two years we have completed development of 275,000 square feet, with a further 60,000 square feet to be completed in 2005.

Portfolio Statistics

	2002	2003	**2004**
Occupancy	91.7%	93.1%	**94.1%**
Average rate per occupied square foot	$11.92	$12.66	**$13.17**

Pro-active Management

We believe we invest more in our properties than most other landlords to ensure our properties remain attractive to quality retailers and their customers, enhancing our long-term competitiveness.

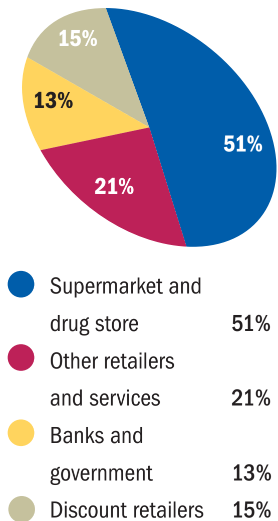
Active Leasing Builds Lasting Tenant Relationships

Another key element of our success is our leasing activity and our strong relationships with national, regional and local tenants. During 2004, leasing activities resulted in net new leasing totalling 599,000 square feet, including development coming on-line. Acquisitions through the year had an average occupancy of 92.6%. The positive impact of these activities resulted in an increase in occupancy to 94.1% at December 31, 2004 from 93.1% at the end of 2003. Of the 5.9% vacancy at year end, 1.5% relates to space under redevelopment.

Pro-active Management Builds Value

First Capital has proven its ability to add value to its properties through pro-active management. This essential element of our growth strategy results in value enhancements and property upgrades aimed at providing consumers with the best possible shopping experience. Specifically, we strive to create and maintain the highest standards in such elements as parking, lighting, signage, facades and access points. Knowledgeable and sophisticated retailers seek to position themselves in the best located, best operated and most visible and accessible locations. Our pro-active management approach ensures our properties remain attractive to these quality retailers and their customers over the long term.

Top 30 tenants annual minimum rent by type



- Supermarket and drug store 51%
- Other retailers and services 21%
- Banks and government 13%
- Discount retailers 15%

Top 30 tenants

1	Loblaws	11	TD Canada Trust	21	Royal Bank
2	Sobeys	12	London Drugs	22	Toys 'R' Us
3	Zellers	13	Scotiabank	23	SAQ
4	Canadian Tire	14	Staples	24	Winners
5	Shoppers Drug Mart	15	Future Shop	25	Dollarama
6	A&P	16	Reitmans Group	26	Pharma Plus
7	Metro	17	LCBO	27	Cara Operations
8	Wal-Mart	18	Rogers	28	Bank of Montreal
9	Canada Safeway	19	Tim Hortons/Wendy's	29	Chapters
10	CIBC	20	Blockbuster	30	Jean Coutu

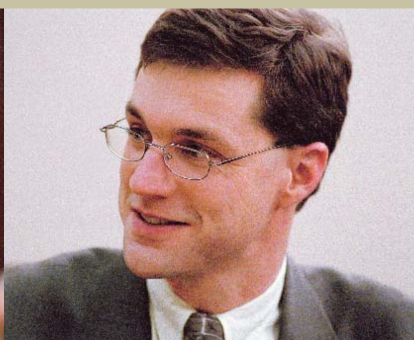
Quality Properties Attract Quality Retailers

Our list of tenants reads like a celebrity list of Canadian retailers. First Capital Realty is home to all of the country's leading supermarket operators, drug store chains, discount retailers, banks and many other familiar shopping destinations for everyday needs. At December 31, 2004, our Top 30 tenants represented 58% of our total rent, and 72% of those rents are backed by investment grade credit ratings.

TOP: Time Marketplace in Vancouver is a newly constructed 38,000 sq. ft. urban neighbourhood shopping centre acquired in 2004.

Discount retailers are also a significant part of our business and are tenants in many of our larger shopping centres.

ALEX CORREIA



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Management's Discussion & Analysis

Disclosures

This Management's Discussion and Analysis ("MD&A") of results of operations and financial condition should be read in conjunction with First Capital Realty Inc.'s ("First Capital Realty" or the "Company") audited consolidated financial statements for the years ended December 31, 2004 and 2003 and the accompanying notes. Additional information about the Company, including the Annual Information Form is on SEDAR at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements included in this MD&A constitute forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts but reflect the Company's current expectations regarding future results or events and are based on information currently available to management.

Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions; however, management can give no assurance that actual results will be consistent with these forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under "Risk Management" and in other sections of this management's discussion and analysis.

Factors that could cause actual results or events to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, general economic conditions, the availability of new competitive supply of retail properties which may become available either through construction or sublease, First Capital Realty's ability to maintain occupancy and to lease or re-lease space at current or anticipated rents, tenant bankruptcies, financial difficulties and defaults, changes in interest rates, changes in operating costs, First Capital Realty's ability to obtain insurance coverage at a reasonable cost and the availability of financing.

These forward-looking statements are made as of March 4, 2005.

Business Overview and Strategy

First Capital Realty Inc. was incorporated in November 1993. The Company, directly and through subsidiaries, is an owner, developer and operator of neighbourhood and community shopping centres in growing metropolitan areas in Canada. The Company also invests in the United States through its holdings in Equity One, Inc. (NYSE:EQY) ("Equity One"), an owner, developer and operator of neighbourhood and community shopping centres located in high growth markets in the southern United States and the Boston, Massachusetts metropolitan area.

First Capital Realty's primary 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 through a focused and disciplined acquisition strategy, by undertaking selective development and redevelopment activities and by pro-active management of the existing shopping centre portfolio.

The Company owns a portfolio of income-producing shopping centres that are typically anchored by supermarkets and/or drug stores. As at December 31, 2004, First Capital Realty's Canadian income-producing shopping centre portfolio consisted of interests in 13.0 million square feet of gross leasable area in 104 properties, 97 of which were supermarket and/or drug store anchored. These shopping centres average 125,000 square feet in size (2003 – 131,000 square feet) and have an average net book value of $125 per square foot (2003 – $115 per square foot). The Company operates in key urban markets in Canada as summarized in the following chart:

December 31			2004			2003
	Percent Occupied	Number of Properties	Gross Leasable Area (000s sq. ft.)	Percent Occupied	Number of Properties	Gross Leasable Area (000s sq. ft.)
Ontario	94%	43	6,086	94%	36	5,446
Quebec	95%	40	4,064	92%	28	3,039
Alberta	92%	14	2,218	92%	14	2,039
British Columbia	97%	3	472	–	–	–
Other	89%	4	184	88%	4	184
Total	94%	104	13,024	93%	82	10,708

The Company targets specific urban markets with stable and/or growing populations despite and because of the high barriers to entry. Management believes that urban retail properties typically will generate sustainable returns on investment, and over time, capital appreciation. The Company seeks to achieve critical mass in its markets to establish a position of influence and generate economies of scale and operating synergies.

The Company targets well-located properties that in turn typically attract quality tenants with long lease terms. These tenants mostly provide consumers with daily necessities including both products and services. In Management's view, such tenants are somewhat less sensitive to economic cycles and are desirable tenants for its type of properties. One measure of the quality of tenants is their credit strength. At December 31, 2004, the Company's top 30 tenants represented 58% of the Company's annualized minimum rents and 60% of the gross leasable area in the Company's portfolio. A total of 72% of those rents are with tenants who have investment grade credit ratings and represent all of Canada's leading supermarket operators, drug store chains, discount retailers, banks and many other familiar shopping destinations.

The Company intends to grow through acquisitions, selective development and pro-active management of the portfolio. Acquisitions increase the size and enhance the quality of the portfolio. We seek to acquire well-located neighbourhood and community shopping centres in our target urban markets that we believe will provide an appropriate return on our investment over the long term. In addition, management will look for strategic or portfolio acquisitions, in both existing markets and markets where the Company may not yet have a significant presence.

During 2004, the Company acquired 21 properties which are consistent with the Company's investment and growth strategies. These properties include the Company's first properties in two new urban markets, Vancouver, British Columbia and Quebec City, Quebec. With the acquisition of three properties in these two new markets and the other 15 properties acquired in the year, the Company is continuing to expand its position of influence and generate economies of scale.

The Company also pursues selective development and redevelopment activities, either alone or with joint-venture partners, in order to actively participate in growth markets and to improve the return on its portfolio. Investments in development and redevelopment activities generally comprise approximately 5% of the Company's total assets at any given time. Typically new centres are developed after obtaining anchor tenant lease commitments. The Company strategically manages all development activities to reduce development risks. In 2004, the Company completed the development of 550,000 square feet of gross leasable area. First Capital is actively developing properties in its major markets across Canada, generating growth in markets where accretive acquisitions are often difficult to find.

The Company views pro-active management of the existing portfolio as an important part of its strategy. Pro-active management encompasses continued investment in our properties to ensure they remain attractive to quality retail tenants and their customers over the long term. Specifically, we strive to create and maintain the highest standards in our properties. The Company's pro-active management strategies have contributed to continued improvement in occupancy levels and average lease rates throughout the portfolio.

The Company also owns 12.7 million shares (approximately 17.5%) of Equity One, Inc., the assets of which are similar to those of the Company, and at December 31, 2004 comprised 188 properties totalling 19.9 million square feet. Including properties held through its investment in Equity One, at December 31, 2004 the Company had interests in 292 properties totalling approximately 32.9 million square feet of gross leasable area.

Company Key Performance Measures

There are many factors that contribute to the successful operations of our business including rental rates, renewal rates, occupancy, tenant quality, availability of properties that meet our acquisition criteria, financing rates, tenant inducements, maintenance and general capital expenditures, development costs and the economic environment in our markets. The collective results of these factors can generally be quantified into the two key measures that the Company uses: funds from operations per diluted share and the overall leverage level.

Funds from Operations per Diluted Share

Our objective is to generate absolute and accretive growth as measured by funds from operations per diluted share.

Overall Leverage Level

Our objective is to continue to maintain financial discipline and ensure sustainability of cash flows through our debt to market capitalization ratio which is targeted to range from 55% to 65%, subject to market conditions and opportunities and taking into consideration the net asset value of the portfolio.

Performance as measured by these and other key indicators follows:

Summary Annual Information

(thousands of dollars, except per share amounts)	**2004**	2003	2002
Real estate investment	**$ 1,831,717**	$ 1,496,133	$ 1,152,406
Total assets	**$ 1,892,050**	$ 1,538,689	$ 1,195,738
Mortgages, credit facilities, debentures and convertible debentures payable	**$ 1,002,965**	$ 806,535	$ 643,592
Shareholders' equity	**$ 794,682**	$ 664,994	$ 507,756
Property rental revenue – Canada	**$ 215,022**	$ 154,656	$ 125,635
Property operating expenses – Canada	**$ 82,204**	$ 58,455	$ 46,872
Net operating income – Canada	**$ 132,818**	$ 96,201	$ 78,763
Dividends received from Equity One, Inc.	**$ 18,671**	$ 19,033	$ 18,575
Interest expense	**$ 53,649**	$ 43,324	$ 40,626
Net income	**$ 37,287**	$ 44,026	$ 29,634
Net income per share	**$ 0.46**	$ 0.91	$ 0.74
Net income per diluted share	**$ 0.45**	$ 0.86	$ 0.74
Funds from operations (1)	**$ 86,855**	$ 60,053	$ 45,241
Funds from operations per diluted share	**$ 1.47**	**$ 1.38**	**$ 1.37**
Weighted average diluted shares – FFO	**60,451,092**	46,377,711	36,426,268
Debt to market capitalization (2)	**56%**	**66%**	**81%**
Debt to gross real estate assets (2)	**66%**	74%	86%
Dividends	**$ 54,771**	$ 30,507	$ 18,698
Dividends per common share	**$ 1.17**	$ 1.14	$ 1.09

(1) See page 28 for an explanation and reconciliation of funds from operations to net income.

(2) Convertible debentures as debt.

Summary Annual Information Highlights

Investment in real estate has increased by 59% over the last two years due to the Company's acquisitions and its new development coming on-line. The Company's mortgage debt and credit facilities increased by 56% over the same period. As a result, revenues, expenses, net operating income and interest expense have increased. The Company has financed its growth through common share equity and debt.

Since 2002, the Company has increased its equity base, real estate investments and the related mortgage debt and credit facilities. However, the overall debt as a percent of market capitalization has declined. (These ratios include all convertible debentures as debt.) The Company accomplished this strengthening of the balance sheet while growing funds from operations ("FFO") and its FFO per diluted share. See page 28 for FFO calculation.

Shareholders' equity has increased over the last two years from the issuance of 32.5 million new shares. These shares have been issued in public and private offerings, conversion and redemption of convertible debentures, exercise of share purchase warrants and options, and in payment of interest on certain convertible debentures.

Funds from operations per diluted share has increased 8% over two years, excluding $1.6 million in lease termination income in 2002, $2.5 million in lease termination and other income and expense in 2004 and after giving effect to the growth in the diluted common shares outstanding. The Company has also increased its dividends per share by 7% from 2002 to 2004 as cash flow from operations has increased.

The dividend per share has increased at a more modest rate than FFO per share excluding the one time items discussed above, allowing the Company to retain capital for reinvestment.

Operations

Investments in Real Estate

The Company's total investments in its acquisition, development and portfolio improvement activities over the last two years is summarized as follows:

($ millions)		**2004**		2003
Acquisition of income-producing properties	**$**	**262**	$	242
Acquisition of additional interests and land parcels adjacent to existing properties		**11**		11
Acquisition of land sites for development		**17**		10
Active development and portfolio improvement		**91**		90
	$	**381**	$	353

2004 Acquisitions

The Company acquired interests in 21 income-producing shopping centres, comprising 1.9 million square feet in 2004 for $262 million. Of these properties, 19 were anchored by supermarkets and two were anchored by drug stores. In addition, nine of the supermarket anchored centres also included drug stores as additional anchors. These acquisitions also demonstrated the Company's continuing focus on urban markets, with 17 of the 21 properties in our targeted urban markets including our initial acquisitions in Vancouver and Quebec City, two urban markets where the Company did not previously have a presence.

Property Name	City	Province	Supermarket Anchored	Drug Store Anchored	Gross Leasable Area (Square Feet)	Acquisition Cost ($ millions)
Income-Producing Properties						
West Oaks Mall[2]	Abbotsford	BC	✓	✓	270,000	$ 29.8
Appleby Mall	Burlington	ON	✓	✓	173,000	26.5
Scott 72 Centre	Delta	BC	–	✓	163,000	34.6
Promenades Levis	Levis	QC	✓	–	141,000	4.1
Carrefour Soumande	Quebec City	QC	(1)	–	107,000	6.8
Norfolk Mall	Tillsonburg	ON	✓	–	100,000	5.0
Plaza Don Quichotte	Ile Perrot	QC	✓	–	99,000	14.6
York Mills Gardens	Toronto	ON	✓	✓	90,000	38.3
Place Pierre Boucher	Longueuil	QC	✓	✓	88,000	8.3
Place des Cormiers	Sept-Iles	QC	✓	–	75,000	4.8
King Liberty Village	Toronto	ON	✓	–	73,000	16.7
Carrefour Don Quichotte	Ile-Perrot	QC	✓	✓	72,000	9.0
Plaza Laval Elysee	Laval	QC	✓	✓	63,000	7.7
Merchandise Building	Toronto	ON	✓	–	52,000	8.0
Place de la Colline	Chicoutimi	QC	✓	✓	52,000	5.9
Place Seigneuriale	Quebec City	QC	✓	–	50,000	4.6
Place Provencher	Montreal	QC	–	✓	46,000	6.7
Place du Commerce	Montreal	QC	✓	✓	40,000	6.1
IGA Tremblant	Mont Tremblant	QC	✓	–	38,000	4.5
Time Marketplace	Vancouver	BC	✓	✓	38,000	13.2
Eastview	Red Deer	AB	✓	–	34,000	6.4
			19	11	1,864,000	$ 261.6

(1) Development subsequent to initial acquisition has added a supermarket of 32,000 square feet.

(2) 50% interest

The Company also acquired an additional interest in one existing shopping centre, six land parcels adjacent to existing properties for expansion, and six land sites for development. Total expenditures on these additional interests and land sites amounted to $28 million for 16,000 square feet of retail space and 63 acres of zoned commercial land for future development.

Property Name	City	Province	Acres	Gross Leasable Area (Square Feet)	Acquisition Cost ($ millions)
Additional Interests and Adjacent Land Parcels					
Ambassador Plaza	Windsor	ON	–	16,000	$ 1.6
Carrefour Soumande	Quebec City	QC	3.0	–	2.8
Brantford Mall	Brantford	ON	1.8	–	0.5
Steeplehill Shopping Centre	Pickering	ON	1.3	–	0.9
King Liberty	Toronto	ON	1.0	–	3.2
Maple Grove Village	Oakville	ON	1.0	–	0.9
Carrefour St. Hubert	Longueuil	QC	0.5	–	0.9
Land Sites for Development					
Charlemagne	Charlemagne	QC	22.3	–	3.8
Strandherd Crossing	Ottawa	ON	10.5	–	5.8
Carrefour du Versant	Gatineau	QC	9.0	–	1.3
Clairfields	Guelph	ON	8.5	–	4.1
St. Charles	Kirkland	QC	3.0	–	1.0
Shoppers Waterloo	Waterloo	ON	1.0	–	1.2
Total			62.9	16,000	$ 28.0

2003 Acquisitions

The Company acquired interests in 14 income-producing shopping centres comprising 1.6 million square feet in 2003 for $242 million. Of these properties, ten were anchored by supermarkets and two were anchored by drug stores. In addition, nine of the supermarket anchored centres also included drug stores as additional anchors.

Property Name	City	Province	Supermarket Anchored	Drug Store Anchored	Gross Leasable Area (Square Feet)	Acquisition Cost ($ millions)
Income-Producing Properties						
Meadowvale Town Centre	Mississauga	ON	✓	✓	370,000	$ 70.2
Gloucester City Centre	Ottawa	ON	✓	✓	337,000	38.5
Centre Maxi Trois-Rivieres	Trois-Rivieres	QC	✓	✓	122,000	14.0
Centre commercial Maisonneuve	Montreal	QC	✓	✓	113,000	5.7
McKenzie Towne Centre	Calgary	AB	✓	✓	107,000	18.2
Maple Grove Village	Oakville	ON	✓	✓	98,000	18.1
Tuscany Market	Calgary	AB	✓	✓	86,000	18.2
Credit Valley Town Plaza	Mississauga	ON	✓	✓	84,000	21.2
Old Strathcona(1)	Edmonton	AB	–	–	79,000	2.8
Dufferin Corners(2)	Toronto	ON	–	✓	76,000	8.1
Le Campanile	Montreal	QC	–	✓	56,000	9.3
Yonge-Davis Centre	Newmarket	ON	–	–	50,000	5.5
Bayview Lane Plaza	Markham	ON	✓	✓	48,000	8.5
Eagleson Cope Drive	Ottawa	ON	✓	–	–	3.8
Shopping centres			10	11	1,626,000	$ 242.1

(1) 50% interest

(2) 75% interest

The Company also acquired additional interests in four existing shopping centres and three land sites for development including a land site across the street from an existing property for future expansion. Total expenditures on these additional interests and land sites amounted to $21 million for 0.135 million square feet of retail space and 21 acres of zoned commercial land for future development.

Property Name	City	Province	Acres	Gross Leasable Area (Square Feet)	Acquisition Cost ($ millions)
Additional Interests and Adjacent Land Parcels					
Les Promenades du Parc	Longueuil	QC	–	47,000	$ 6.1
Place Viau (Maxi)	Montreal	QC	–	28,000	2.9
Wellington Corners	London	ON	–	10,000	0.7
Centre Domaine (Metro Land)	Montreal	QC	–	–	1.3
Land Sites for Development					
3434 Lawrence	Toronto	ON	–	50,000[(1)]	$ 2.7
Brooklin Towne Centre (Land)	Whitby	ON	12.5	–	2.6
McKenzie Towne Centre (Land)	Calgary	AB	8.5	–	4.3
Total			21.0	135,000	$ 20.6

(1) Subsequently demolished for new development on the site.

Development Activities

In 2004, the Company developed 550,000 square feet of retail space in the following shopping centres:

Property Name	City	Province	Square Feet	Major Anchors
Royal Oak	Calgary	AB	142,000	Sobeys, London Drugs
Les Galeries de Lanaudiere	Lachenaie	QC	71,000	Dollar Max, Old Navy
Sherwood Towne Square	Edmonton	AB	48,000	Homesense, Mark's Work Wearhouse
Brooklin Towne Centre	Whitby	ON	45,000	Shoppers Drug Mart, Bank of Nova Scotia
Strandherd Crossing	Ottawa	ON	40,000	Loeb (Metro)
Carrefour Soumande	Quebec City	QC	32,000	Le Fruiterie
Carrefour du Versant	Gatineau	QC	32,000	Familiprix, Dollarama
Parkway Centre	Peterborough	ON	26,000	Winners, SportMart
Delta Centre	Cambridge	ON	22,000	Shoppers Home Health Care, Dollarama
3434 Lawrence	Toronto	ON	20,000	Staples
Shoppers Waterloo	Waterloo	ON	15,000	Shoppers Drug Mart
Brampton Corners	Brampton	ON	11,000	Buck or Two
Wellington Corners	London	ON	10,000	Shoppers Home Health Care
Plaza Delson	Montreal	QC	8,000	SAQ
Other pads and expansions			28,000	
			550,000	

Of the 550,000 square feet completed, 512,000 square feet is occupied at an average rate of $16.97 per square foot. These successfully completed development projects illustrate the potential future value of investments in development initiatives that are currently not generating income, but are expected to contribute significantly to the growth of the Company.

At December 31, 2004, the Company has 139 acres of land sites and parcels available for future development. This inventory provides the Company with opportunities for growth throughout its existing portfolio.

In addition to acquisitions during 2004, the Company invested $91 million in its active development projects as well as in certain improvements to its existing shopping centre portfolio.

	Number of Sites/Properties	Acreage	Developable Square Feet
Properties under development	4	–	219,000
Square footage under development in existing properties	11	–	116,400
Land parcels adjacent to/part of existing properties	28	56	618,250
Land sites held for future development	6	83	710,000
			1,663,650

In addition to the properties under development, the Company has a number of shopping centres under redevelopment or expansion at year end. The expected costs to complete planned and approved projects including tenant inducements total approximately $40 million, of which $32 million is committed.

In the management of its development and expansion program, the Company utilizes dedicated internal professional staff. All costs of development, including applicable salaries and other direct costs of internal staff are capitalized to the cost of the development.

Leasing

In 2004, net new leasing, including new space coming on-line totalled 599,000 square feet compared to 581,000 square feet in 2003. This net new leasing will generate additional annual minimum rent of approximately $7.9 million as compared to $6.7 million in 2003. Lease renewals on 410,000 square feet were completed in 2004, as compared to 520,000 square feet of space in 2003. The 2004 renewals will generate additional annual minimum rent 2.4% greater than the expiring rent.

With the impact of leasing during the year in the existing portfolio and development projects, new acquisitions and increases from contractual rent steps, the average rate per occupied square foot increased to $13.17 at December 31, 2004 as compared with $12.66 at December 31, 2003.

The occupancy level of the portfolio, including properties currently under redevelopment, was 94.1% of total gross leasable area as at December 31, 2004 as compared with 93.1% at December 31, 2003.

New leases, and to a lesser extent, renewal leasing, requires investments of capital for tenant installation costs which typically include tenant allowances and other leasing costs.

Equity One

Equity One is a U.S. REIT traded on the NYSE (EQY), that principally acquires, develops and operates community and neighbourhood shopping centres located predominantly in high growth markets in the southern United States and the Boston, Massachusetts metropolitan area. Similar to the Company, Equity One's shopping centres are primarily anchored by supermarkets or other daily necessity oriented retailers such as drug stores or discount retail stores.

Equity One Property Portfolio

At December 31, 2004, Equity One owned 188 properties totalling 19.9 million square feet located primarily in metropolitan areas of 12 states in the southern United States and the Boston, Massachusetts area. The portfolio is comprised of 133 supermarket anchored shopping centres, eight drug store anchored shopping centres, 40 other retail anchored shopping centres, four retail development parcels and three commercial properties as well as a non-controlling interest in one unconsolidated joint venture.

The investment in Equity One provides the Company with geographic diversification in growing urban markets in the United States. Seventy-five percent of the total square footage is located in Florida, Texas, and Georgia with the balance of the properties in nine other states.

The Equity One portfolio also provides further diversification of property rental revenue through additional U.S. retailers. Nine of Equity One's top ten tenants are represented by U.S.-based corporations that are distinct from the Company's top ten tenants.

This information concerning Equity One is based on publicly available information and documents filed with the U.S. Securities and Exchange Commission.

Analysis of Investment in Equity One

The book value and market value of the Company's investment in Equity One amount to $204 million and $364 million (2003 – $211 million and $274 million), respectively, at December 31, 2004, using the year-end exchange rate of $1.20 (2003 – $1.30). First Capital Realty through its wholly-owned U.S. subsidiary owns 12.7 million shares of Equity One as of December 31, 2004.

The investment in Equity One originated from an exchange of the Company's U.S. shopping centre business for shares in Equity One in September 2001, which at the time had a book value of US$120 million. Since that time, Equity One has grown significantly, and the Company's investment has increased from further cash investments. At December 31, 2004, the Equity One shares had a market value of US$302 million or US$23.73 per share. Equity One has paid dividends for 27 consecutive quarters providing the Company with a source of stable cash income. During 2004, First Capital Realty reinvested a portion of these dividends into further stock purchases through the Equity One dividend reinvestment and stock purchase plan, and may continue to do so in the future. The Company has leveraged its investment in Equity One with the majority of the shares as security on US$86 million of debt as at December 31, 2004.

Results of Operations

Funds from Operations

In management's view, funds from operations ("FFO") is a commonly accepted and meaningful indicator of financial performance in the real estate industry.

First Capital Realty believes that financial analysts, investors and shareholders are better served when the clear presentation of comparable period operating results generated from FFO disclosure supplements Canadian generally accepted accounting principles ("GAAP") disclosure. The Company's method of calculating FFO may be different from methods used by other corporations or REITs and accordingly, may not be comparable to such other corporations or REITs. FFO is presented to assist investors in analyzing the Company's performance and to provide an indication of the Company's ability to fund capital expenditures, dividends and other cash needs. FFO (i) does not represent cash flow from operating activities as defined by GAAP, (ii) is not indicative of cash available to fund all cash flow needs and liquidity, including the ability to pay dividends, and (iii) should not be considered as an alternative to net income (which is determined in accordance with GAAP) for purposes of evaluating operating performance.

(thousands of dollars)	2004	2003
Net income for the year	$ 37,287	$ 44,026
Add (deduct):		
Amortization	35,332	11,364
Loss (gain) on disposition of real estate and investments	(1,163)	201
Loss on settlement of convertible debentures	215	–
Non-cash compensation expense	960	273
Equity income from Equity One, Inc.	(18,228)	(19,095)
Dividend income from Equity One, Inc.	18,671	19,033
Dilution gain on investment in Equity One, Inc.	(3,201)	(17,911)
Future income taxes	16,982	22,162
Funds from operations	$ 86,855	$ 60,053

Funds from Operations — New CIPPREC Recommendations

The Canadian Institute of Public and Private Real Estate Companies ("CIPPREC") has recently published a new standard for the calculation of funds from operations ("FFO"). The new definition is meant to standardize the calculation and disclosure of FFO across real estate companies in Canada, and is modeled on the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT") in the United States. The new method of calculation differs from the Company's historical calculation, and will be adopted by First Capital Realty retroactively effective January 1, 2005. In the same period, the Company will also adopt the new accounting requirements for convertible debentures on a retroactive basis.

Funds from Operations per Diluted Share

Funds from operations per diluted common share totalled $1.47 for the year ended December 31, 2004 compared to $1.38 in 2003. The increase in FFO per share was due primarily to growth in net operating income, straight-line rents, and approximately a net positive $0.04 per share of non-recurring income and expense items. These positive impacts were partially offset by a 30% increase in the weighted average number of diluted common shares and the strengthening of the Canadian dollar compared to the prior year.

Net Operating Income

(thousands of dollars)	2004	2003
Same property	$ 64,405	$ 63,549
2003 Acquisitions	22,384	6,971
2004 Acquisitions	11,986	–
Development and redevelopment	29,892	22,854
Lease termination income	1,650	492
Straight-line rent	2,881	–
Market rent adjustments	289	–
Sold properties and other non-recurring amounts	(669)	2,335
Net operating income	$ 132,818	$ 96,201

Net operating income represents non-GAAP information and may not be comparable to measures used by other issuers. Net operating income should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP.

Net operating income ("NOI") increased in 2004 by $37 million to $133 million. Same property NOI (includes properties where the Company's ownership and investment are substantially the same in the two calendar years) grew by 1.3% or $0.9 million during the year.

Properties which were acquired during 2003 contributed an additional $15.4 million to NOI in 2004 with the increase arising primarily from a full year of ownership versus a partial year and to a lesser degree from leasing on the properties. Properties acquired in 2004 contributed $12.0 million to NOI, which will increase in 2005 when the properties will be owned for a full year. NOI from properties which are currently or have undergone development or redevelopment at some point during 2003 or 2004 was $29.9 million in 2004. This represents an increase of $7.0 million in NOI over 2003 due to development and redevelopment activities, net of temporary reductions in NOI while the properties are in the development stage.

In the normal course of operations the Company receives payments from tenants as compensation for the cancellation of leases. In 2004, the Company received lease cancellation payments of $1.7 million or 0.8% of total property revenues as compared to $0.5 million or 0.3% of total property revenues in 2003. Lease termination income was higher in 2004 due partially to a one-time lease termination payment of $0.6 million received from a single tenant. Lease termination income is increasing due to the growth in the size of the portfolio and has ranged from 0.3% to 2% of total property revenues over the prior four years.

The Company began to recognize rental income prospectively on a straight-line basis in 2004, which resulted in a $2.9 million increase to NOI compared to 2003.

The ratio of net operating income to gross property revenues in 2004 of 61.8% reflects the inclusion of straight-line rents, lease termination fees and non-recurring amounts of $3.5 million included in NOI. Excluding these items, the NOI margin is approximately 61.4%. Similarly, the 2003 ratio of net operating income to gross property revenues of 62.2% reflects the inclusion of lease termination fees and other non-recurring amounts of $2.1 million in NOI. Excluding these items, the NOI margin is approximately 61.0%. Overall, the NOI margin has been stable over the past two years as the Company's portfolio has grown and expanded in new markets.

Management, in measuring the Company's performance, does not distinguish or group its Canadian operations on a geographical or any other basis. Accordingly, the Company has a single reportable Canadian segment for disclosure purposes in accordance with Canadian generally accepted accounting principles.

Equity Income from Equity One, Inc.

The Company's share of Equity One's net earnings, adjusted to Canadian GAAP, net of a provision for future tax on the undistributed earnings of Equity One, is recorded as equity income. The $0.9 million decrease in the equity income is primarily due to a change in the average U.S. exchange rate from $1.40 in 2003 to $1.30 in 2004, and is also impacted by the 31% return of capital in the dividends paid by Equity One in 2004 compared to 43% in 2003. The total dividends received by the Company on its investment in 2004 were US$14.2 million as compared to US$13.5 million in 2003.

Interest and Other Income

(thousands of dollars)		**2004**		2003
Interest and other income	**$**	**6,409**	$	2,839
Dividend income		**71**		77
Total	**$**	**6,480**	$	2,916

The Company earns interest income from funds invested in three types of investments: advances made to the Company's development partners; short-term cash deposits; and an investment in a portfolio of short-term mortgages and other receivables. The growth in interest and other income in 2004 is primarily due to the receipt of income from certain high-yield cash flow participation loans, in which the Company had a non-recourse interest including approximately $2.7 million which is non-recurring. Income includes both regular interest and cash flow payments on realization by the borrower on the underlying real estate assets. The interest income and cash flow payments from high-yield cash flow participation loans are not expected to be a significant contributor to the Company's results going forward.

Gain on Disposition of Real Estate and Investments

Periodically, the Company will dispose of certain assets which do not meet the long-term investment criteria of the Company. In 2004, the Company sold its Leduc Towne Square property of 50,000 square feet in Leduc, Alberta and a land parcel held in a joint venture. In 2003, the Company recognized a loss on the sale of its 13,000 square foot Highland Park property in Nova Scotia.

Interest Expense

(thousands of dollars)	2004	2003
Mortgages and credit facilities		
Secured by Canadian properties	$ 47,482	$ 34,329
Secured by investment in Equity One	4,980	4,393
	52,462	38,722
Debentures and convertible debentures	1,187	4,602
Total interest expense	$ 53,649	$ 43,324

The increase in interest expense in 2004 was a result of an increase in the gross debt required to fund the growth of the property portfolio. While gross debt has increased, the Company's ratio of debt to gross book value of real estate investments has declined from 74% at December 31, 2003 to 66% at December 31, 2004.

Interest Expense on Mortgages and Credit Facilities – Canada

(thousands of dollars)	2004	2003
Interest expense	$ 47,482	$ 34,329
Interest capitalized	4,499	3,481
Other	327	132
Total Canadian mortgage and credit facilities interest paid	$ 52,308	$ 37,942

The increase of $14.4 million in interest paid on Canadian mortgages and credit facilities in 2004 over 2003 primarily results from increased borrowing by the Company to fund acquisitions and development activities. The effect of an increase in gross debt was partially offset by a decrease in the weighted average interest rate on the Company's Canadian fixed rate borrowings, from 7.0% at December 31, 2003 to 6.8% at December 31, 2004 as rates on new financings are lower than existing debt. The interest capitalized to properties under development in 2004 increased over 2003 as a result of increased development activity. Interest capitalized as a percentage of total interest paid declined to 8.6% from 9.2% in 2004 versus 2003, indicating that while development activities were higher in the aggregate, they did not represent a significantly higher portion of the Company's assets.

Interest Expense on U.S. Credit Facilities – Secured by Investment in Equity One

(thousands of dollars)		2004		2003
Ending debt balance – December 31 (US$)	$	**85,713**	$	83,926
Interest expense (US$)	$	**3,832**	$	3,147
Average exchange rate	$	**1.30**	$	1.40
Interest expense (Cdn$)	$	**4,980**	$	4,393

Measured in U.S. currency, the interest expense on the U.S. facilities has increased by 22% in 2004 from 2003 as a result of the higher debt balance and a higher average interest rate. The change in the U.S. exchange rate during 2004, has partially offset this increase, resulting in a 13% increase in interest expense measured in Canadian currency. The Company uses U.S. dollar-denominated debt to finance its U.S. dollar investment.

Interest on Debentures and Convertible Debentures

(thousands of dollars)		2004		2003
Interest expense on convertible debentures	$	**1,187**	$	3,569
Interest expense on debentures		**–**		1,033
Total debenture interest expense		**1,187**		4,602
Interest on equity component of convertible debentures		**22,656**		27,434
Total interest paid		**23,843**		32,036
Less: interest paid in common shares of the Company		**(18,724)**		(18,724)
Cash interest paid	$	**5 ,119**	$	13,312

Interest expense on debentures and convertible debentures declined due to the reduction in the weighted average liability component of the Company's outstanding debentures and convertible debentures. Specifically, the Company's 7.5% debentures were redeemed on maturity in 2003, the 8.5% convertible debentures were redeemed in December 2003, and the 7.875% convertible debentures were redeemed in August 2004.

A change in GAAP, effective January 1, 2005, will result in retroactive changes to recorded interest expense on convertible debentures as discussed in future changes in accounting policies on page 47 of this report.

Corporate Expenses

(thousands of dollars)		2004		2003
Salaries, wages and benefits	$	**6,380**	$	4,419
Non-cash compensation		**960**		273
Other general and administrative costs		**3,887**		3,340
Capital taxes, net of recoveries from tenants		**1,362**		1,141
Capitalized expenses		**(950)**		(254)
Total corporate expenses	$	**11,639**	$	8,919

Total corporate expenses have increased to $11.6 million in 2004 from $8.9 million in 2003. With the significant growth in the Company's portfolio and operations, a new office in Calgary was opened and staffing was expanded in its Montreal and Toronto offices.

Non-cash compensation is recognized over the vesting period of options, restricted share units and deferred share units. These items are considered part of the total compensation for directors, senior management, key employees and select service providers to the Company. Due to the grants of options and share units during 2004, the expense has increased from the prior year. Options and share units are designed to align the holders' interests with the long-term interests of the Company and its shareholders.

Other general and administrative costs have increased with the Company's growth and in response to the increasing costs of compliance with a changing regulatory environment for public companies. In addition, there was an increase in pre-acquisition costs incurred in the investigation of properties which were ultimately not acquired by the Company.

Capital taxes have increased $0.2 million from the additional properties owned by the Company.

The Company manages acquisitions, development and redevelopment activities internally. Certain expenses relating to development and redevelopment projects are capitalized, in accordance with GAAP, to land and shopping centres under development as incurred. Amounts capitalized to real estate investments during 2004 totalled $0.9 million as compared to $0.3 million in 2003. This increase reflects the increased staffing and costs associated with the increased development activities in 2004.

Despite the factors which have increased these expenses in 2004, corporate expenses as a percentage of gross rental revenue have declined from 5.8% for the year ended December 31, 2003 to 5.4% for the year ended December 31, 2004.

Amortization

(thousands of dollars)	2004	2003
Shopping centres	$ 29,194	$ 8,544
Tenant inducements and leasing fees	4,447	2,629
Intangible assets	1,495	12
Other	196	179
Deferred financing fees	1,980	1,210
Total amortization	$ 37,312	$ 12,574

Amortization of shopping centre properties increased to $29 million in 2004 from $9 million in 2003. Due to a change in accounting policy adopted January 1, 2004, these amounts are not directly comparable. The Company changed its policy from the 5% sinking fund method used in 2003 to the straight-line method in 2004 as a result of amendments to GAAP. This change was adopted throughout the real estate industry and is not reflective of a change in the economic status or viability of the properties. Of the variance between 2004 and 2003, $18 million is attributable to the change in accounting policy, while the remaining change is due to the amortization of newly acquired properties and developments coming on-line.

The amortization of intangible assets arises from the allocation of a portion of the purchase price on acquisitions subsequent to September 12, 2003 to lease origination costs and customer relationships. The first full year of amortization of these items is in 2004 resulting in an increase from 2003.

Amortization of tenant inducements and leasing fees increased in amount as a result of the growing portfolio. In addition to inducements incurred directly by the Company, changes to accounting for acquisitions has the effect of increasing the Company's deferred charges.

Deferred financing costs are commitment fees and other costs incurred in connection with debt financing, and are amortized over the term of the related financing. The increase in 2004 over 2003 is primarily due to the write-off of remaining costs associated with the 7.875% convertible debentures which were redeemed in August 2004.

Income and Other Taxes

(thousands of dollars)		**2004**		2003
Canadian federal large corporations tax	$	**2,150**	$	1,950
United States current income and withholding taxes		**2,656**		2,967
Total	$	**4,806**	$	4,917

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 $2.7 million arises from net income earned by the Company's U.S. subsidiaries and is translated at the average exchange rate in effect during the year.

The Company has estimated tax-loss carry-forwards for Canadian income tax purposes of approximately $38 million available to reduce future Canadian taxable income.

Net Income

(thousands of dollars)		**2004**		2003
Net income before the following:	$	**35,286**	$	32,831
Dilution gain on investment in Equity One, Inc.		**3,201**		17,911
Income tax on above		**(1,200)**		(6,716)
Net income	$	**37,287**	$	44,026
Net income per diluted share	$	**0.45**	$	0.86

Net income for the year ended December 31, 2004 was $37.3 million, or 46 cents per share basic and 45 cents per share diluted, compared to $44.0 million, or 91 cents per share basic and 86 cents per share diluted, in the prior year. Net income in 2004 included a $3.2 million dilution gain on the Company's investment in Equity One compared to $17.9 million in the prior year. The dilution gains on the Company's investment in Equity One arise as a result of a reduction of the Company's ownership interest in Equity One and do not provide any cash to the Company. Equity One's number of common shares

outstanding rose from 68.7 million to 72.9 million during 2004, and the Company's ownership interest declined from 18.2% to 17.5%. Excluding dilution gains and the related tax impact, net income increased by approximately 7% from $32.8 million to $35.3 million.

Capital Structure and Liquidity

The real estate business is capital-intensive by nature. The Company's capital structure is key to financing growth and providing cash dividends to shareholders over the long term. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that First Capital Realty's blend of debt and equity in its capital base provides stability and reduces risks while generating an acceptable return on investment, taking into account the long-term business objectives of the Company.

(thousands of dollars)	**2004**	2003
Mortgages and credit facilities – Canada	**$ 899,939**	$ 677,491
Credit facilities – U.S.	**103,026**	108,810
Mortgages and credit facilities	**1,002,965**	786,301
Convertible debentures payable	**–**	20,234
Equity component of convertible debentures	**262,706**	339,721
Other	**(1,005)**	(732)
Convertible debentures principal	**261,701**	359,223
Total debt (debentures as debt)	**$ 1,264,666**	$ 1,145,524
Share capital	**$ 673,660**	$ 422,916
Warrants	**711**	6,591
Options and share units	**1,273**	298
Cumulative currency translation	**(13,347)**	(8,253)
Contributed surplus	**2,123**	–
Deficit	**(132,444)**	(96,279)
	531,976	325,273
Equity component of convertible debentures	**262,706**	339,721
Total shareholders' equity	**$ 794,682**	$ 664,994

Mortgages and Credit Facilities

As at December 31, 2004, mortgages and credit facilities represented 52.6% of the gross book value of the Company's real estate investments as compared to 51.1% at December 31, 2003. This increase was primarily due to the acquisition of shopping centres and refinancing activities during the year.

The weighted average interest rate on fixed rate mortgages and credit facilities was 6.8% at December 31, 2004 compared to 6.9% at December 31, 2003.

			2004	2003
(thousands of dollars)	Canada	U.S.	Total	Total
Fixed rate	$ 838,207	$ 42,070	$ 880,277	$ 678,628
Floating rate	61,732	60,956	122,688	107,673
	$ 899,939	$ 103,026	$ 1,002,965	$ 786,301

At December 31, 2004, 88% of the outstanding mortgage and credit facility liabilities bore interest at fixed interest rates, compared to 86% in 2003. The fixed mortgage rates provide an effective matching for rental income from leases which typically have fixed terms ranging from five to ten years and incremental contractual rent steps during the term of the lease.

In Canada, the Company had fixed rate mortgages outstanding as at December 31, 2004 in the aggregate amount of $838.2 million as compared to $639.7 million at the end of 2003. The increase in the outstanding balance is the net result of $35.9 million in repayments and $234.4 million in new financing, primarily from financing on acquisitions and refinancing on existing properties. The average remaining term of the mortgages outstanding has declined from 8.0 years at December 31, 2003 to 7.2 years at December 31, 2004. This decline is due to the passage of time and the assumption of mortgages with short remaining terms, offset in part by longer terms on new financings.

The floating rate financing is secured by certain of the Company's shopping centres and development assets and is being used primarily to finance development and redevelopment activities. As these projects are completed, management intends to arrange long-term financing.

The U.S. dollar-denominated credit facilities totalling Cdn$103 million are utilized to finance the Company's investment in Equity One and reduce the Company's exposure to fluctuations in foreign currency exchange rates. The debt service requirements of these credit facilities are funded by the cash flow generated by the dividends from Equity One.

The outstanding U.S. credit facilities increased from US$83.9 million at December 31, 2003 to US$85.7 million at December 31, 2004. The decrease in the U.S. exchange rate from $1.30 at December 31, 2003 to $1.20 at December 31, 2004 offsets the increased borrowing of the U.S. credit facilities resulting in a decrease of $5.8 million in the value of U.S. credit facilities measured in Canadian dollars.

The Company's objective is 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, 2004, the Company had mortgages and credit facilities aggregating $126 million coming due in 2005, of which $33 million are mortgages at an average interest rate of 5.22% and $21 million is the scheduled amortization of principal balances during the year. The remaining $72 million of debt maturing in 2005 is represented by floating rate mortgages and credit facilities. As the Company intends to renew its bank credit facilities prior to their maturity dates and foresees no difficulty in doing so, cash payment of the outstanding credit facilities is not expected to be required.

Debt Maturity Profile

(thousands of dollars)	Canada	U.S.	Total	% Due
2005	$ 115,464	$ 10,561	$ 126,025	12.6
2006	39,809	6,462	46,271	4.6
2007	99,556	86,003	185,559	18.5
2008	43,839	–	43,839	4.4
2009	42,229	–	42,229	4.2
2010	67,002	–	67,002	6.7
2011	62,486	–	62,486	6.2
2012	87,717	–	87,717	8.7
2013	130,889	–	130,889	13.1
2014	175,555	–	175,555	17.5
Thereafter	35,393	–	35,393	3.5
	$ 899,939	$ 103,026	$ 1,002,965	100.0

The Company is liable for minimum land-lease payments on certain of its properties in each year from 2005 to 2009 of $0.5 million and $7.8 million thereafter. Total minimum land-lease payments are $10.4 million. The leases expire between 2023 and 2039.

Convertible Debentures

(thousands of dollars)		**2004**			2003		
Interest Rate							
Coupon	Implicit	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
7.875%	9.125%	**$ –**	**$ –**	**$ –**	$ 97,522	$ 20,234	$ 81,088
7.00%	8.25%	**99,999**	**–**	**104,275**	99,999	–	103,185
7.25%	9.6%	**161,702**	**–**	**158,431**	161,702	–	155,448
		$ 261,701	**$ –**	**$ 262,706**	$ 359,223	$ 20,234	$ 339,721

Convertible debentures were issued by First Capital Realty to finance a portion of the equity component of its shopping centre portfolio expansion. The debentures, which mature in 2008, require interest payable semi-annually at rates ranging from 7.0% to 7.25%.

Holders of these debentures have the right to convert them into an aggregate total of 11,030,434 common shares at share prices that range from $22.71 to $24.40 per share on or before maturity.

The Company also has the option of repaying the debentures on maturity by way of the issuance of common shares at 95% of a weighted average trading price of the Company's common stock. The convertible debenture series outstanding at December 31, 2004 also provide the Company with the option to pay semi-annual interest through the issue of common stock.

Holders of the Company's 7.875% convertible debentures converted $62.4 million principal into 3,797,212 common shares during 2004. The remaining $35.1 million principal of the 7.875% convertible debentures was redeemed in 2004 by the Company in cash. As a result of the accounting for the early redemption, the Company recorded a non-cash $2.1 million amount in contributed surplus, which is included in the earnings per share calculations for 2004.

Holders of the Company's 8.5% convertible debentures converted $3.4 million of principal into 227,854 common shares during 2003. The remaining $54.0 million principal of the 8.5% convertible debentures was redeemed in 2003 by the Company through the issuance of 3,647,388 common shares.

On February 16, 2005, the Company announced that it will redeem all outstanding 7.25% convertible debentures in shares on March 31, 2005. See subsequent events on page 44 of this report.

A change in GAAP, effective January 1, 2005 will result in changes to the recorded liability and equity components of the Company's convertible debentures. Please see Management's Discussion and Analysis of this change on page 47 of this report.

Shareholders' Equity

Shareholders' equity amounted to $795 million as at December 31, 2004, as compared to $665 million at the end of 2003. Shareholders' equity as at December 31, 2004 included $262.7 million (2003 – $339.7 million) that represents the equity component of convertible debentures as discussed above.

As at December 31, 2004, the Company had 51,659,583 (2003 – 35,109,754) issued and outstanding common shares with a stated capital of $673.7 million (2003 – $422.9 million). During fiscal 2004, a total of 16,549,829 common shares were issued as follows: 1,177,143 shares for interest payments on the 7.0% and 7.25% convertible debentures; 5,849,024 shares from the exercise of share purchase and advisory warrants; 2,000,000 shares as a result of a private placement; 3,366,000 shares in connection with a public offering; 3,797,212 common shares were issued in connection with the conversion of convertible debentures and 360,450 shares from the exercise of common share options. Total cash proceeds received from the issuance of shares during 2004 was $181 million.

Shareholders' equity as at December 31, 2004 includes a net cumulative, unrealized currency translation adjustment in the negative amount of $13.3 million (2003 – $8.3 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, 2004 and 2003, respectively. The U.S. dollar exchange rate in effect at December 31, 2004 decreased to US$1.00 = Cdn$1.20 from the exchange rate at December 31, 2003 of US$1.00 = Cdn$1.30. The impact of the decrease in the foreign exchange rate on the net assets held in the United States resulted in a $5.1 million change in the unrealized currency translation adjustment.

Shareholders' equity as at December 31, 2004 includes a deficit of $132.4 million (2003 – $96.3 million). The Company has historically paid dividends at levels consistent with general industry practice and are based on cash flow from operations as opposed to net income.

Share Purchase Warrants

On April 15, 2002, the Company issued 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 until 2008, are subject to certain terms and conditions, and may be exercisable in certain other limited circumstances.

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 increasing the Company's capital base over time without incurring significant issue costs. During the year 4,849,024 share purchase warrants were exercised for proceeds of $57.2 million. As at December 31, 2004, there were 927,405 share purchase warrants outstanding, which would represent additional equity of $10.9 million if exercised.

In addition, during the year 1,000,000 advisory warrants were exercised for proceeds of $13.5 million. No advisory warrants remain outstanding at December 31, 2004.

Share Purchase Options

As of December 31, 2004, the Company has issued and outstanding 1,257,550 share purchase options, with an average exercise price of $14.49. The options are exercisable by the holder at any time after vesting. The options have been issued at various times pursuant to the Company's stock option plan to the employees, officers and directors of the Company and third-party service providers. The options granted permit the holder to acquire shares at an exercise price equal to the market price of such shares at the date the option is granted. The objective of granting options is to encourage the holder to acquire an ownership interest in the Company over a period of time which acts as a financial incentive for the holder to consider the long-term interests of the Company and its shareholders.

If all options outstanding at December 31, 2004 were exercised, 1,257,550 shares would be issued and the Company would receive proceeds of approximately $18.2 million.

Liquidity

The Company's primary sources of capital are cash generated from Canadian property operations, dividends from Equity One, credit facilities, mortgage financing and refinancings and equity issues.

Our primary uses of capital include acquisitions, development projects, debt principal repayments, payment of dividends to shareholders, capital improvements and the funding of leasing costs.

Cash and cash equivalents were $4.9 million at December 31, 2004 (2003 – $0.1 million). The Company also has undrawn credit facilities totalling $47.8 million at December 31, 2004. In addition, the Company had unlevered properties with a book value of approximately $43.3 million. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term.

Financing of unlevered projects and refinancing of existing projects in 2005 is expected to generate additional cash. The actual level of future borrowings will be determined based on prevailing interest rates, debt market conditions and our general view of the required leverage in the business.

Dividends

The Company has maintained a policy of paying regular quarterly dividends to common shareholders since it commenced operations as a public company in 1994. Dividends are set taking into consideration the Company's capital requirements, its alternative sources of capital and common industry cash distribution practices.

In 2004, the Company paid dividends of $1.17 per common share (2003 – $1.14 per common share). These dividends represented a payout ratio of approximately 80% in 2004 compared to approximately 83% in 2003. The Company is currently paying a quarterly dividend of $0.30 per common share. The annual dividend has grown at a compound rate of approximately 5% since the Company commenced paying dividends.

Quarterly Analysis

($000s except per share and Other Data)	2004				2003			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property rental revenue	**59,543**	**54,412**	**52,613**	**48,454**	43,561	38,145	37,002	35,948
Net operating income	**36,102**	**35,257**	**31,912**	**29,547**	27,791	24,113	22,714	21,583
Net income	**10,164**	**10,739**	**8,492**	**7,892**	9,394	10,824	8,892	14,916
Net income/share	**0.12**	**0.17**	**0.08**	**0.08**	0.13	0.19	0.17	0.49
Net income/share diluted	**0.12**	**0.15**	**0.08**	**0.08**	0.12	0.18	0.16	0.39
Weighted average diluted shares outstanding – EPS	**51,977,136**	**50,970,595**	**43,366,400**	**39,098,047**	32,494,129	29,101,361	20,959,950	40,336,384
Funds from operations	**23,775**	**22,921**	**21,294**	**18,865**	17,654	16,085	13,451	12,863
Funds from operations/share diluted	**0.38**	**0.38**	**0.36**	**0.35**	0.35	0.34	0.35	0.34
Weighted average diluted shares outstanding – FFO	**63,007,570**	**62,001,029**	**60,332,440**	**56,064,087**	52,348,299	49,901,914	41,760,502	40,336,384
Dividend	**0.30**	**0.29**	**0.29**	**0.29**	0.29	0.29	0.28	0.28
Total assets	**1,892,050**	**1,833,562**	**1,776,756**	**1,651,366**	1,538,689	1,432,875	1,323,745	1,261,725
Total mortgages and credit facilities	**1,002,965**	**975,538**	**918,485**	**829,412**	786,301	704,651	632,647	657,090
Shareholders' equity	**794,682**	**798,735**	**772,910**	**747,072**	664,994	633,048	588,414	510,790
OTHER DATA								
Number of properties	**104**	**103**	**101**	**93**	82	79	72	70
Gross leasable area	**13,024,000**	**12,692,000**	**12,489,000**	**11,698,000**	10,708,000	9,915,000	9,009,000	8,720,000
Occupancy %	**94.1%**	**93.7%**	**93.8%**	**93.3%**	93.1%	92.8%	91.9%	91.9%

Q4 2004 Operations and Results

The Company acquired Scott 72 Centre in Vancouver, British Columbia during the fourth quarter of 2004, increasing the size of the portfolio by 163,000 square feet. The purchase price of approximately $34.6 million, including closing costs, was satisfied by a combination of cash, and the assumption of $24 million in debt at a fixed rate of 6.5% due in November 2007.

The Company also acquired a 16,000 square foot property adjacent to its existing Ambassador Plaza shopping centre in Windsor, Ontario. This addition is fully occupied, and includes Royal Bank as a tenant. The total purchase price of $1.6 million, including closing costs, was financed in cash and the assumption of $0.7 million in debt at a fixed rate of 7.07% due in June 2007.

In addition to the acquisitions noted above, the Company invested $36 million during the fourth quarter in its active development projects, as well as in certain improvements to its existing shopping centre portfolio. Development of 167,000 square feet was completed during the quarter of which 156,000 square feet was leased at an average rate of $16.17 per square foot.

Leasing activity in the fourth quarter resulted in net new leasing of 202,000 square feet, including development coming on-line, and renewal leasing of 170,000 square feet. The average rate per occupied square foot at December 31, 2004 increased to $13.17 from $13.08 at September 30, 2004. Portfolio occupancy at December 31, 2004 increased to 94.1% from 93.7% at September 30, 2004. Properties acquired during the fourth quarter have an average lease rate per square foot of $17.18, and occupancy of 91.6%.

FFO per diluted share was 38 cents compared to 35 cents in the fourth quarter of 2003. The increase is due primarily to the Company's property acquisitions and development projects coming on-line and the recognition of straight-line rents.

Net operating income increased to $36.1 million from $27.8 million in the prior year. The increase was due to $4.8 million from 2004 acquisitions, $1.6 million from the incremental impact of acquisitions made in the prior year, $1.3 million due to developments coming on-line during the year, $0.8 million due to the impact of straight-line rents, $0.1 million due to the amortization of market rent adjustments and same property income growth of $0.1 million or 0.5%. During the fourth quarter of 2004, the Company received $0.8 million in lease termination income as compared to $0.1 million in the fourth quarter of 2003.

Outlook

In 2004, First Capital Realty made significant progress in meeting all of its stated goals and objectives. Specifically, the Company grew the business and generated solid increases in funds from operations, while finishing the year with a stronger balance sheet and a larger public float of common shares.

For 2005, our business objectives are:

- to increase the size of the Company's income-producing portfolio while maintaining and enhancing asset quality;
- to increase the cash flow from operations through increased rental rates and portfolio occupancy;

- to continue to grow the business while maintaining a responsible and prudent leverage ratio;
- to further increase the market capitalization and public float of the Company.

First Capital Realty has a focused and clear strategy for managing and growing the business, and management believes that it is well positioned to continue to deliver increased value to investors over the long term. Pro-active management of its assets, aggressive leasing efforts and successful development initiatives should result in increased net operating income and continued strength in the occupancy of the Company's existing portfolio. The Company's superior locations and well maintained properties should continue to attract and retain tenants that provide customers with daily necessities.

The acquisition environment has become extremely competitive, and it is increasingly difficult to find properties that immediately meet the Company's investment and return criteria. Furthermore, the spreads between cap rates and the Company's cost of capital are becoming smaller than those it has been able to obtain during the prior four years. Therefore, with the current environment in the real estate market, management believes it is increasingly more important to pursue acquisitions where there are opportunities for leasing, redevelopment and/or other value creation activities. Nevertheless, the Company will continue to acquire properties that are well leased, well located and of high quality where they add strategic value and/or improve operating efficiencies.

Acquisition of new development sites will provide the Company with opportunities to participate in growth markets and generate higher returns on investment. The Company typically limits investment in development assets to approximately 5% of its total assets.

On acquisitions of both income-producing and development properties, the Company will continue to focus on assets with growth potential in its rental income so that refinancing risk is reduced. This is particularly important in an environment of increasing real estate prices.

Overall, management is confident that the quality of the Company's real estate will continue to generate sustainable and growing cash flows and produce superior returns on investment.

Events Subsequent to December 31, 2004

Internalization

The Company commenced the internalization of its leasing, development, construction management and tenant coordination, thereby fully internalizing its most important value creation activities. These new capabilities, in addition to the Company's existing acquisition, development, financing and strategic leasing resources, will be located in each of its offices in Toronto, Montreal and Calgary in order to effectively serve the seven major urban markets where the Company operates.

Our new joint venture, FCB, a Retail Tenant Services Partnership of First Capital Realty and BLJC, will provide basic property management services to our properties. Effective with the implementation of this joint venture, First Capital terminated its third-party property management agreement.

The Company expects that these changes to its delivery of property management services will positively impact the quality of service our tenants receive, and over time may result in decreased costs to our tenants.

Additionally, the Company is expecting that the internalization of the value creation activities will result in First Capital being able to leverage all of its knowledge and expertise within the Company, which will provide a higher ability to deliver on our strategic plans, and to foster stronger relationships with key outside stakeholders in the acquisition, development and tenant communities. Management believes that this will be achieved at a minimal cost to the Company.

Acquisitions

Since January 1, 2005, First Capital has continued to acquire high quality properties in the urban markets in which it operates. The Company has acquired four properties, comprising 268,000 square feet of gross leasable area, all of which are anchored by supermarkets and/or drug stores. The aggregate purchase price for the properties was approximately $47 million.

Pemberton Plaza is a 78,000 square foot neighbourhood shopping centre located at the corner of Pemberton Avenue and Marine Drive in North Vancouver, British Columbia. The centre is fully leased and is anchored by a 55,000 square foot Save-On-Foods as well as VanCity Savings and Starbucks Coffee. The purchase price of approximately $19.1 million, including closing costs, was satisfied by a combination of cash, the assumption of $5.5 million of debt at a fixed rate of 9.63% due in June 2008 and new mortgage financing of $5.8 million at a fixed rate of 4.84%, also due in June 2008.

Grimsby Square Shopping Centre is a 126,000 square foot community shopping centre located on Livingston Avenue, just off the QEW, in Grimsby, Ontario. The property is fully leased and is anchored by a 53,000 square foot Canadian Tire, a 36,000 square foot Sobeys, a 7,000 square foot Shoppers Drug Mart, as well as Royal Bank, Mark's Work Wearhouse, the Beer Store, McDonald's and a Sunoco gas bar. The purchase price of approximately $13.1 million, including closing costs, was satisfied by a combination of cash, the assumption of $4.3 million of debt at a fixed rate of 7.07% due in March 2008 and new mortgage financing of $4.5 million at a fixed rate of 4.66%, also due in March 2008.

Kingsland Shopping Centre is a 45,000 square foot neighbourhood shopping centre located at the corner of Elbow Drive and Kingsland Road SE in Calgary, Alberta. The property is fully leased and is anchored by a 10,000 square foot Shoppers Drug Mart as well as Starbucks Coffee and a medical clinic. The purchase price of approximately $9.0 million, including closing costs, was satisfied by a combination of cash and the assumption of $4.5 million of debt at a fixed rate of 7.20% due in November 2007.

The Company also acquired a 19,000 square foot centre in London, Ontario comprised of a 15,000 square foot Shoppers Drug Mart and Wendy's restaurant. The purchase price of approximately $5.6 million, including closing costs, was satisfied by a combination of cash and the assumption of $3.9 million of debt at a fixed rate of 6.36% due in June 2014.

The Company also completed the acquisition of two parcels of land adjacent to existing properties for $2.6 million.

Equity Financing

On January 26, 2005, First Capital completed the sale, on an underwritten private placement basis, of 2,700,000 common shares at a price of $19.25 per common share, for gross proceeds of approximately $52 million. Out of the 2,700,000 common shares, Gazit-Globe Ltd., through a Canadian wholly-owned subsidiary, and a Canadian affiliate of Alony-Hetz Properties & Investments Ltd. purchased 707,000 common shares and 193,000 common shares, respectively, at the same price.

The net proceeds from the offering were initially used to pay down amounts outstanding under certain revolving credit facilities, to fund future acquisition and development activities and for general corporate purposes.

This offering, together with the payment of interest due on February 28, 2005 on the 7.0% convertible debentures in shares and the exercise of options brings the total outstanding common shares of the Company at March 4, 2005 to 54,681,397.

Redemption of 7.25% Convertible Debentures in Shares

On February 16, 2005, the Company announced that it will redeem the $161.7 million aggregate principal amount of its outstanding 7.25% convertible unsecured subordinated debentures (FCR.DB.D), together with accrued and unpaid interest, on March 31, 2005 through the issuance of common shares. The number of common shares to be issued per $100 amount payable will be calculated by dividing the dollar amount payable by an amount equal to 95% of the weighted average trading price of the common shares of First Capital Realty on the Toronto Stock Exchange calculated for the 20 consecutive trading days ending on March 23, 2005.

Special Dividend

The Company announced on February 16, 2005 that it will pay a special first quarter dividend of $0.50 per common share on April 6, 2005 to shareholders of record on March 30, 2005. The dividend includes the Company's ordinary quarterly dividend of $0.30 per common share, plus an additional $0.20 per common share.

Summary of Significant Accounting Estimates and Policies

Summary of Critical Accounting Estimates

First Capital Realty's significant accounting policies are described in Note 1 to the Consolidated Financial Statements. Management believes the policies which are most subject to estimation and management's judgment are those outlined below.

Property Acquisitions

For acquisitions subsequent to September 12, 2003, in accordance with CICA 1581 and 3062, management is required to allocate the purchase price to land, building, tenant improvements, and intangibles such as the value of above-market and below-market leases, lease origination costs, and tenant relationships, if any.

Management uses estimates and judgments as follows:

- The fair value of land as of the acquisition date.
- The value of the depreciated replacement cost of buildings as of the acquisition date based on prevailing construction costs for buildings of a similar class and age.

- The value of the above- and below-market leases based on the present value of the difference between the rents payable under the terms of the in-place leases and estimated market rents.
- The value of deferred leasing costs, including tenant improvements, at depreciated replacement cost based on estimates of prevailing construction costs, taking into account the condition of tenants' premises and year of improvement.
- The value of lease origination costs based on estimates of the costs that would be required for the existing leases to be put in place under the same terms and conditions. These costs include leasing commissions, foregone rent and operating cost recoveries during an estimated lease-up period.
- The value of the tenant relationships, if any, based on the net costs avoided if the tenants were to renew their leases at the end of the existing term, and the probability that the tenants will renew.
- The fair value of debt assumed on acquisition by reference to prevailing market interest rates.

Estimates of fair values and market rates could vary and impact reported financial results.

Impairment of Assets

Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. First Capital Realty's long-lived assets consist of investments in income properties and mortgages receivable. The fair value of investments in income properties is dependent upon anticipated future cash flows from operations over the anticipated holding period.

The review of anticipated cash flows involves subjective assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors, which may affect the ultimate value of the property. These assumptions are subjective and may not be ultimately achieved.

The fair value of mortgages receivable depends upon the financial covenant of the issuer and the economic value of the underlying security.

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment would be recognized.

The estimates of future cash flows and the impact of other factors could vary, and result in a different calculation of the impairment.

Amortization of Income Properties

Amortization is recorded on buildings using a straight-line basis over the expected useful economic life of the building, which is typically 40 years. A significant portion of the acquisition cost of each property is allocated to the building. The allocation of the acquisition cost to the building and the determination of the useful life are based upon management's estimates. In the event the allocation to the building is inappropriate or the estimated useful life of the buildings prove incorrect, the computation of amortization will not be appropriately reflected over future periods.

Fair Value of Financial Instruments

The Company is required to determine annually the fair value of its mortgage debt and its convertible debentures. In determining the fair value of the Company's outstanding mortgages, management uses internally developed models, which incorporate estimated market rates. In determining market rates, management adds a credit spread to quoted rates on Canadian government bonds with similar maturity dates to the Company's mortgages. The fair value of the Company's convertible debentures is based on current trading prices. Estimates of market rates and the credit spread applicable to a specific property could vary and result in a different disclosed fair value.

Summary of Changes to Significant Accounting Policies

New accounting policies adopted by the Company in 2004 are as follows:

Amortization of Income Properties

Effective January 1, 2004, the Company adopted the new CICA requirements for the amortization of buildings and began to amortize income properties on a straight-line basis. The sinking fund method, which was previously used by many Canadian public real estate entities, including First Capital, was discontinued. Under the straight-line method, amortization is charged to income on a straight-line basis over the remaining estimated useful life of the building. This change was applied prospectively, and resulted in an $18 million increase in amortization expense in 2004, over the expense which would have been recognized under the previous accounting policy.

Recognition of Rental Revenue

Effective January 1, 2004, the Company adopted the new CICA requirement in accounting for recognition of base rental income from leases with contractual rent increases. The Company now recognizes the total revenue due under those leases evenly over the lease term. Previously, revenue was recognized as the lease payments became due.

Accordingly, a receivable is recognized from the tenants for the current difference between the straight-line rent and the rent that is contractually due from the tenant. This policy change was adopted prospectively, and resulted in increased revenue to the Company of $2.9 million in 2004.

Hedging Relationships

Effective January 1, 2004, the Company adopted the new CICA Accounting Guideline 13, which establishes specific conditions for when hedge accounting may be applied. First Capital Realty has foreign exchange contracts which partially hedge the net investment in Equity One, and has fixed the interest rate on certain of its variable interest rate credit facilities.

The adoption of this new guideline did not have a significant impact on the Company's consolidated financial statements.

Future changes in accounting policies

Variable Interest Entities

In June 2003, as revised in December 2004, the CICA issued Accounting Guideline 15 (AcG15), Consolidation of Variable Interest Entities. AcG15 provides guidance on identifying entities for which control is achieved through means other than through voting rights, variable interest entities ("VIE"), and how to determine when and which business enterprises should consolidate the VIE. Management is continuing its review of the Company's joint ventures relating to property development and management, to determine the applicability and impact of AcG15 on its consolidated financial statements.

Convertible Debentures – Retroactive Application

Effective January 1, 2005, the Company will adopt the revisions to CICA 3860 (Financial Instruments) which will be applied retroactively. This change will affect the treatment of the Company's convertible debentures which are compound instruments, in that there is a traditional debenture component, and an option of the holder to convert to equity at a pre-determined price. GAAP has required, and continues to require, that these elements be valued and recorded separately. The discussion below describes each element, and how they will be affected by the changes to GAAP.

Convertible Debentures — The Debenture Element

The debenture element is broken down into its two component parts – the present value of the principal repayment at the end of the term, and the present value of the stream of interest payments required to be made throughout the term. The interest rate factor used in determining the present value of each payment stream is a rate which would notionally have been payable had the debenture been issued without a conversion feature. This rate is typically higher than the face rate of the convertible debenture, as investors are normally willing to accept a lower yield when given an option to convert into equity at a pre-determined price. This interest factor is determined at the time of original issue, and is not revisited or revised in later years as circumstances change.

Historically, a stream of payments due under a convertible debenture was classified as debt if, and only if, it was required that the Company complete that payment in cash. If the Company had the option of fulfilling its obligation through the issuance of shares, the present value of the obligation was included in shareholders' equity. As a result, First Capital's convertible debentures were substantially recorded as an element of shareholders' equity, as the Company had the option of fulfilling the entire principal balance and a majority of its contractual interest obligations through the issuance of shares.

A change to Section 3860 (Financial Instruments) of the CICA Handbook removes the cash payment test, and will require that the entire present value of the payment obligations be reflected as debt on the Company's balance sheet. This change will affect all public companies in Canada, and will result in the reclassification of most convertible debentures in Canada from shareholders' equity to debt.

Convertible Debentures — Interest Expense

The recording of interest expense has historically followed the treatment and division of the debenture values; specifically, if a liability was recognized, interest would be recorded as an expense within the statement of operations, while interest on a component of shareholders' equity would be recorded as a charge directly to retained earnings. It is important to note that the interest recorded, whether as an expense or as a charge to retained earnings, was calculated using the notional interest rate applicable to non-convertible debt. The difference between the notional interest and the contractual interest is accretion and is included in interest expense and in charges to deficit.

In First Capital's financial statements, only a fraction of the total interest flowed through the statement of operations. The remaining interest has been charged directly to retained earnings, as required by GAAP, and has been disclosed in the statement of deficit, net of tax.

As a result of the change to GAAP, all interest expense will be reflected in the statement on operations, consistent with the treatment of the entire obligation as debt.

Convertible Debentures — Issue Costs

The costs incurred in the issue of the convertible debentures are deferred and amortized over the term of the debenture. These costs are pro-rated to each of the elements of the debenture. The recording of the amortization of each portion of the costs follows the treatment of the related interest. For issue costs related to a recorded liability, issue costs are amortized to the statement of operations. For issue costs related to equity, issue costs are amortized directly to retained earnings. For issue costs related to the holders' option, issue costs are not amortized.

As a result of the change to GAAP, all issue cost amortization will be reflected in the statement of operations, consistent with the treatment of the entire obligation as debt.

Convertible Debentures — Holders' Option

As discussed above, the debenture element of the convertible debenture was calculated as a stand-alone element. The remaining value is deemed to be the value of the option to convert to equity at a pre-determined price. This value is recorded in shareholders' equity, and the amount does not change until the convertible debenture is converted or redeemed.

The changes to GAAP do not affect the treatment of the holders' option, and therefore the value assigned to this option will continue to be recorded within shareholders' equity.

Convertible Debentures — Retroactive Impact to Financial Statements

The retroactive effect on the Company's balance sheet at December 31, 2004 and statement of operations for the year ended December 31, 2004 of the change to GAAP regarding convertible debentures is estimated as follows:

(thousands of dollars)	Increase (Decrease)
Assets	$ 1,547
Liabilities	247,736
Shareholders' equity	(246,189)
Interest, accretion and amortization	27,353
Loss on settlement of convertible debentures	719
Future income tax expense	(8,672)
Net income	(19,400)

There is no change to earnings per share or diluted earnings per share as a result of the retroactive application of this change to GAAP.

Risks and Uncertainties

First Capital Realty, as an owner of income property and development land, is exposed to numerous business risks in the normal course of its business that can impact both short- and long-term performance. Income and development properties are affected by general economic conditions and local market conditions such as oversupply of similar property or a reduction in tenant demand. 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 the Company encounters in conducting its business and the manner in which it takes actions to minimize their impact are outlined below. The Company's Annual Information Form provides a more detailed discussion of these risks and can be found on SEDAR at www.sedar.com and the Company's website www.firstcapitalrealty.ca.

Operating Risk

All real property investments are subject to a degree of risk. They are affected by various factors including changes in general economic conditions (such as the availability of long-term mortgage funds) and in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available space, the ability of the owner to provide adequate maintenance at an economic cost and various other factors. In addition, fluctuations in interest rates may affect the Company. The Company's portfolio has major concentrations in Ontario, Quebec and Alberta. As a result, economic and real estate conditions in these regions will significantly affect the Company's revenues and the value of its properties.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. The Company's income and funds available for distributions to shareholders would be adversely affected if a significant tenant or a number of smaller tenants were to become unable or unwilling to meet their obligations to the Company or if the Company were unable to lease a significant amount of available space in its properties on economically favourable lease terms.

Risk Management

The following chart summarizes the top 30 tenants of the Company, which together represent 58.3% of the Company's annualized minimum rent from its Canadian portfolio.

Tenant	Number of Stores	Square Feet	Percent of Total Canadian Square Feet	Percent of Total Canadian Annualized Minimum Rent
Top Thirty Tenants				
1 Loblaws	22	1,105,000	8.5%	8.5%
2 Sobeys (incl. Western Cellars)	29	1,064,000	8.2%	8.1%
3 Zellers	15	1,406,000	10.8%	5.4%
4 Canadian Tire / Mark's Work Wearhouse	14	521,000	4.0%	3.8%
5 Shoppers Drug Mart / Home Health Care	25	304,000	2.3%	3.7%
6 A & P	11	445,000	3.4%	2.6%
7 Metro	11	331,000	2.5%	2.5%
8 Wal-Mart	4	474,000	3.6%	2.2%
9 Canada Safeway	7	275,000	2.1%	2.1%
10 CIBC	20	97,000	0.8%	1.5%
11 TD Canada Trust	16	83,000	0.6%	1.5%
12 London Drugs	6	163,000	1.3%	1.2%
13 Scotiabank	16	79,000	0.6%	1.2%
14 Staples	7	163,000	1.4%	1.1%
15 Future Shop	5	140,000	1.1%	1.1%
16 Reitmans Group	27	119,000	0.9%	1.1%
17 LCBO	9	81,000	0.6%	1.1%
18 Rogers	22	84,000	0.6%	1.0%
19 Tim Hortons / Wendy's	28	78,000	0.6%	0.9%
20 Blockbuster	14	70,000	0.5%	0.9%
21 Royal Bank	11	74,000	0.6%	0.9%
22 Toys 'R' Us	3	113,000	0.9%	0.8%
23 SAQ	11	44,000	0.3%	0.7%
24 Winners / HomeSense	3	98,000	0.7%	0.7%
25 Dollarama	12	94,000	0.7%	0.7%
26 Pharma Plus	7	49,000	0.4%	0.7%
27 Cara Operations (Swiss / Kelseys / Second Cup)	13	46,000	0.4%	0.6%
28 Bank of Montreal	11	43,000	0.3%	0.6%
29 Chapters / Coles	4	53,000	0.4%	0.6%
30 Jean Coutu	7	81,000	0.6%	0.5%
Total: Top 30 Tenants	**390**	**7,777,000**	**59.7%**	**58.3%**

Lease Maturities

First Capital Realty's lease maturities are spread on a property-by-property basis, which helps to generate a more stable cash flow and mitigate risks related to changing market conditions. Lease expirations in each of the next ten years range from 4.9% to 9.1% of the annualized minimum rent in the Company's portfolio.

The Company's lease maturity profile at December 31, 2004 is as follows:

Date	Number of Stores	Occupied Square Feet	Percent of Total Square Feet	Annualized Minimum Rent at Expiration	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
Month-to-month	94	201,000	1.5%	$ 1,852,000	1.1%	$ 9.20
2005	214	624,000	4.8%	8,640,000	5.0%	13.85
2006	261	880,000	6.8%	11,917,000	6.8%	13.55
2007	299	800,000	6.1%	13,258,000	7.6%	16.58
2008	278	1,027,000	7.9%	15,805,000	9.1%	15.39
2009	250	845,000	6.5%	15,363,000	8.8%	18.18
2010	116	464,000	3.6%	8,606,000	4.9%	18.56
2011	80	748,000	5.7%	9,759,000	5.6%	13.05
2012	106	754,000	5.8%	12,039,000	6.9%	15.97
2013	113	875,000	6.7%	12,042,000	6.9%	13.77
2014	128	788,000	6.1%	12,054,000	6.9%	15.30
Thereafter	165	4,244,000	32.6%	52,937,000	30.4%	12.47
Total	**2,104**	**12,250,000**	**94.1%**	**$ 174,272,000**	**100.0%**	**$ 14.23**

Financing and Repayment of Indebtedness

The Company has outstanding indebtedness in the form of mortgages, credit facilities and convertible debentures and, as such, is subject to the risks normally associated with debt financing, including the risk that the Company's cash flow will be insufficient to meet required payments of principal and interest.

There is a possibility that the Company's internally generated cash may not be sufficient to repay all of its outstanding indebtedness. Upon the expiry of the term of the financing on any particular property owned by the Company, refinancing on a conventional mortgage loan basis may not be available in the amount required or may be available only on terms less favourable to the Company than the existing financing. This will be dependent upon the economic circumstances prevailing at such time. Also, a disruption in the capital markets could have an adverse impact on the Company's ability to meet its obligations and grow its business. The Company may elect to repay certain indebtedness through refinancings or through the issuance of equity securities.

The Company's strategy of spreading the maturities of its debt is also helpful in mitigating its exposure to interest rate fluctuations. The following chart summarizes the Company's fixed and variable components of mortgages and credit facilities.

(thousands of dollars)	2004		2003	
Fixed rate mortgage debt	**$ 838,207**	**83.6%**	$ 639,733	81.4%
Variable rate credit facilities				
– hedged	**42,070**	**4.2%**	38,895	4.9%
Variable rate credit facilities				
– unhedged	**122,688**	**12.2%**	107,673	13.7%
Total mortgages and credit facilities	**$ 1,002,965**	**100.0%**	$ 786,301	100.0%

Risks of Foreign Equity Investments and Borrowings

The Company holds a significant equity investment in Equity One and may acquire investments in other U.S. REITs or real estate investment vehicles from time to time. The value of the Company's investments of this nature is subject to the risks inherent in investments in equity securities, including the risk that the financial condition of the issuers of the equity securities held by the Company may become impaired or that the general condition of the stock market may deteriorate. The investee companies are also subject to risks associated with real property ownership which are similar to those described for the Company itself. Common stocks are also susceptible to general stock market fluctuations with potentially volatile increases and decreases in value as market confidence in and perceptions of their issuers change.

The Company's U.S. investment is self-sustaining and financed in part by U.S. dollar-denominated credit facilities, which are serviced by the cash flow generated by the dividends from this investment. The Company has not traditionally fully hedged its net U.S. dollar asset position.

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 and the opportunities which the market presents. First Capital Realty will continue to seek out acquisition, expansion and selective development opportunities that offer acceptable risk-adjusted rates of return.

The Company competes for suitable real property investments with individuals, corporations, real estate investment companies, trusts and other institutions (both Canadian and foreign) which may seek real property investments similar to those desired by the Company. Many of these investors may also have financial resources, which are comparable to, or greater than, those of the Company. An increase in the availability of investment funds, and an increase of interest in real property investments, increases competition for real property investments thereby increasing purchase prices and reducing the yield thereon.

Further, the Company's development commitments are subject to those risks usually attributable to construction projects, which include (i) construction or other unforeseeable delays; (ii) cost overruns; (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; and (iv) increase in interest rates during the life of the development.

Government Regulation and Environmental Risk

The Company and its real estate investments are subject to various governmental legislation and regulation. Any change in such legislation or regulation adverse to the Company or its investments could adversely affect the operating and financial performance of the Company. In addition, laws and policies relating to the protection of the environment have become increasingly important in recent years. Environmental laws and regulations can change rapidly and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on its business, financial condition or results of operation.

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.

Shopping Centre Portfolio

Property Name	Location	Year Built or Acquired	Gross Leasable Area	Major or Anchor Tenants
ONTARIO				
Cedarbrae Mall	Toronto	1996	478,000	Loblaws, Zellers, Canadian Tire, Toys 'R' Us, LCBO, Scotiabank, CIBC, Bally Total Fitness
Fairview Mall	St. Catharines	1994	391,000	Food Basics (A&P), Zehrs [1] (Loblaws), Zellers, Cineplex, Chapters, Office Depot, Future Shop, Mark's Work Wearhouse, LCBO, CIBC, Scotiabank
Meadowvale Town Centre	Mississauga	2003	382,000	Dominion (A&P), Canadian Tire, Shoppers Drug Mart, LCBO, TD Canada Trust, CIBC, Bank of Montreal
Gloucester City Centre	Ottawa	2003	340,000	Loblaws, Zellers, Pharma Plus, Scotiabank, CIBC
Brantford Mall	Brantford	1995	318,000	Zehrs (Loblaws), Wal-Mart, Cineplex, LCBO, CIBC, Reitmans
Brampton Corners	Brampton	2001	302,000	Fortino's (Loblaws), Wal-Mart, Chapters, National Bank, Scotiabank, Kelsey's
Tillsonburg Town Centre [2]	Tillsonburg	1994	282,000	Zellers, Canadian Tire, LCBO, Business Depot (Staples), CIBC, TD Canada Trust
Parkway Centre	Peterborough	1996	248,000	Price Chopper (Sobeys), Zellers, Winners, Reitmans, Sport Mart
Bridgeport Plaza	Waterloo	1994	210,000	Sobeys, Zellers, Rogers Video, Laurentian Bank
Harwood Plaza	Ajax	1999	199,000	Food Basics (A&P), Shoppers Drug Mart, Scotiabank, Blockbuster
Stanley Park Mall	Kitchener	1997	189,000	Zehrs (Loblaws), Zellers, Pharma Plus, LCBO, TD Canada Trust
Queenston Place	Hamilton	1995	172,000	Zellers, Mark's Work Wearhouse, Penningtons (Reitmans)
Sheridan Plaza	Toronto	1996	168,000	Food Basics (A&P), Zellers
Appleby Mall	Burlington	2004	166,000	Fortino's (Loblaws), Pharma Plus, LCBO, Bank of Montreal
Ambassador Plaza	Windsor	1994	153,000	Zellers, LCBO, CIBC, Scotiabank, Royal Bank
University Plaza	Windsor	2001	150,000	A&P, Canadian Tire, Shoppers Drug Mart, Bank of Montreal
Westney Heights Plaza	Ajax	2002	147,000	Sobeys, Shoppers Drug Mart, CIBC, Scotiabank, TD Canada Trust
Grimsby Square Shopping Centre	Grimsby	2005	126,000	Sobeys, Canadian Tire, Shoppers Drug Mart, Royal Bank, Mark's Work Wearhouse, Beer Store
Festival Marketplace	Stratford	1997	126,000	Sears [7], Canadian Tire [1]
Orleans Gardens [3]	Ottawa	1997	111,000	Your Independent Grocer (Loblaws), CIBC, Scotiabank, Rogers Video
McLaughlin Corners [3]	Brampton	2002	110,000	A&P, Shoppers Drug Mart, Royal Bank, Rogers Video, Pizza Hut
Maple Grove Village	Oakville	2003	98,000	Sobeys, Pharma Plus, CIBC, Rogers Video
Thickson Place	Whitby	1997	93,000	A&P, Toys 'R' Us [1], CIBC, TD Canada Trust
York Mills Gardens	Toronto	2004	90,000	Longo's Supermarket, Shoppers Drug Mart, TD Canada Trust
Byron Village	London	2002	89,000	A&P, Pharma Plus, LCBO, TD Canada Trust, Rogers Video
Brooklin Towne Centre [3]	Whitby	2003	86,000	Price Chopper (Sobeys), Shoppers Drug Mart, Scotiabank
Credit Valley Town Plaza	Mississauga	2003	84,000	Loblaws, Pharma Plus, CIBC, TD Canada Trust, Rogers Video
Dufferin Corners [4]	Toronto	2003	76,000	Shoppers Drug Mart, TD Canada Trust
Midland Lawrence Plaza	Toronto	2002	76,000	Price Chopper (Sobeys), Part Source (Canadian Tire)
Eagleson Place	Ottawa	1997	76,000	Loblaws, CIBC, Rogers Video
Norfolk Mall	Tillsonburg	2004	75,000	Zehrs (Loblaws) [1], Wal-Mart
Wellington Corners	London	1999	75,000	Price Chopper (Sobeys), Shoppers Drug Mart, Montana's
King Liberty Village	Toronto	2004	73,000	A&P, TD Canada Trust, Blockbuster
Delta Centre	Cambridge	1998	71,000	Price Chopper (Sobeys), Dollarama, Shoppers Home Health Care
Towerhill Centre	Peterborough	2001	70,000	Sobeys, Government of Canada
Steeple Hill Shopping Centre	Pickering	2000	65,000	Price Chopper (Sobeys), Shoppers Drug Mart, Blockbuster
Strandherd Crossing	Ottawa	2004	64,000	Loeb (Metro), Shoppers Drug Mart
Merchandise Building	Toronto	2004	52,000	Dominion (A&P)
Northfield Centre [3]	Waterloo	1999	52,000	Sobeys, Pharma Plus, Royal Bank, Rogers Video
Yonge-Davis Centre	Newmarket	2003	50,000	Sleep Country
Bayview Lane Plaza	Markham	2003	46,000	Food Basics (A&P), Bank of Montreal
3434 Lawrence	Toronto	2003	32,000	Business Depot (Staples), Mark's Work Wearhouse
Adelaide Shoppers	London	2005	19,000	Shoppers Drug Mart, Wendy's
Shoppers Waterloo	Waterloo	2004	15,000	Shoppers Drug Mart
Eagleson Cope Drive	Ottawa	2003	–	Loblaws
			6,295,000	
QUEBEC				
Les Galeries de Lanaudière [3]	Lachenaie	2002	254,000	Staples, Winners, Future Shop, Sears Home, Home Depot [1], Pier 1 Imports, Dollarmax, Old Navy, Reitmans, Kelsey's
Galeries Normandie	Montréal	2002	224,000	IGA (Sobeys), Provigo (Loblaws), Rossy, Royal Bank, Bank of Montreal, SAQ, Baron Sports
Centre Domaine	Montréal	2002	195,000	Metro [3], Zellers, Rossy, CIBC
Centre commercial Côte St. Luc	Montréal	2002	183,000	IGA (Sobeys), Jean Coutu, SAQ, Royal Bank, Blockbuster, World Gym
Plaza Delson	Delson	2002	173,000	Loblaws, Jean Coutu, Cineplex, SAQ, National Bank, Rogers Video
Carrefour St. Hubert	Longueuil	2002	156,000	Provigo (Loblaws), Jean Coutu, CIBC, Bombardier

Property Name	Location	Year Built or Acquired	Gross Leasable Area	Major or Anchor Tenants
La Porte de Gatineau	Gatineau	1994	155,000	Maxi (Loblaws), Toys 'R' Us [1], Future Shop, CIBC, TD Canada Trust, SAQ
Place Viau	Montréal	2002	152,000	Maxi (Loblaws), Zellers
Promenades Lévis	Lévis	2004	141,000	Metro, Bank of Montreal
Carrefour Soumande	Québec City	2004	139,000	Toys 'R' Us, Fruiterie, Varietes Vanier
La Porte de Châteauguay	Châteauguay	1995	132,000	Zellers, Blockbuster
Centre commercial Beaconsfield	Montréal	2002	126,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank
Centre commercial Wilderton	Montréal	2002	125,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank, Laurentian Bank, Femme Fitness
Centre Maxi Trois Rivières	Trois Rivières	2003	122,000	Maxi (Loblaws), Value Village, Jean Coutu, Bank of Montreal, Blockbuster
Place Pointe-aux-Trembles	Montréal	2002	119,000	Metro, Rossy, Jean Coutu
Les Galeries de Repentigny	Repentigny	1997	119,000	Super C (Metro), Pharmaprix (Shoppers Drug Mart)
Centre Commercial Maisonneuve [2]	Montréal	2003	113,000	Provigo (Loblaws), Canadian Tire, SAQ, TD Canada Trust, Brunet, Rogers Video
Place Fleury	Montréal	2002	111,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ
Les Promenades du Parc	Longueuil	1997	104,000	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Blockbuster
Plaza Don Quichotte	Île Perrot	2004	99,000	IGA (Sobeys), SAQ, Caisse Populaire Desjardins
Hooper Building	Sherbrooke	2005	92,000	IGA Extra (Sobeys), Familiprix
Place Pierre Boucher	Longueuil	2004	88,000	Maxi (Loblaws), Pharmaprix (Shoppers Drug Mart), SAQ, Dollar Max
Centre commercial Van Horne	Montréal	2002	80,000	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Royal Bank, Scotiabank
Place des Cormiers	Sept-Îles	2004	75,000	Provigo (Loblaws), Bureau en Gros (Staples), SAQ
Carrefour du Versant	Gatineau	2003	75,000	IGA (Sobeys), Familiprix, Dollarama
Place Vilamont	Laval	2002	72,000	Provigo (Loblaws), Jean Coutu, Laurentian Bank
Carrefour Don Quichotte	Île Perrot	2004	72,000	Metro, Pharmacie Essaim, CIBC
Plaza Laval Élysée	Laval	2004	63,000	Provigo (Loblaws), Pharmaprix (Shoppers Drug Mart), Laurentian Bank
Place Nelligan [4]	Gatineau	2002	59,000	IGA (Sobeys)
Galeries Brien	Repentigny	2002	59,000	IGA (Sobeys), Uniprix
Place Cité Des Jeunes	Gatineau	2001	58,000	Metro, Uniprix
Le Campanile	Montréal	2003	56,000	Pharmaprix (Shoppers Drug Mart), Bank of Montreal
Place de la Colline	Chicoutimi	2004	52,000	Provigo (Loblaws), Uniprix
Toys 'R' Us/Pier 1 Imports	Montréal	2002	52,000	Toys 'R' Us, Pier 1 Imports
Place Seigneuriale	Québec City	2004	51,000	Metro, Royal Bank, Nautilus Plus
Place Provencher	Montréal	2004	46,000	Bureau en Gros (Staples), Uniprix
Place Roland Therrien	Longueuil	2000	42,000	Super C (Metro) [1], Scotiabank, Blockbuster
Place du Commerce	Montréal	2004	40,000	IGA (Sobeys), Jean Coutu
IGA Tremblant	Mont-Tremblant	2004	38,000	IGA (Sobeys)
Village des Valeurs	Laval	2002	27,000	Value Village
Place Bordeaux [5]	Gatineau	2002	17,000	Pharmaprix (Shoppers Drug Mart)
			4,156,000	
ALBERTA				
Northgate Centre	Edmonton	1997	511,000	Safeway, Zellers, Future Shop, Royal Bank, Sport Mart
South Park Centre	Edmonton	1996	377,000	Canadian Tire, Zellers, Toys 'R' Us [1], Office Depot (Safeway), Linens 'n Things, Laura's Shoppes, Sport Chek
Royal Oak Centre [6]	Calgary	2003	275,000	Sobey's, Wal-Mart, London Drugs, Blockbuster, Royal Oak Clinic, Reitmans, Petcetera
Red Deer Village	Red Deer	1999	205,000	Sobeys, Canadian Tire, Mark's Work Wearhouse, TD Canada Trust, Rogers Video, Sport Mart
The Village Market	Sherwood Park	1997	116,000	Safeway, London Drugs, Scotiabank
McKenzie Towne Centre	Calgary	2003	109,000	Sobeys, Super Drug Mart, Blockbuster
Gateway Village	St. Albert	1994	107,000	Safeway, CIBC, Royal Bank, Scotiabank
Sherwood Towne Square	Sherwood Park	1997	91,000	Home Depot [1], Mark's Work Wearhouse, Staples, HomeSense
Tuscany Market	Calgary	2003	86,000	Sobeys, Super Drug Mart, Scotiabank
West Lethbridge Towne Centre	Lethbridge	1998	83,000	Safeway, Home Hardware, Blockbuster
Old Strathcona Shopping Centre [3]	Edmonton	2003	78,000	Canada Post, Edward D. Jones
Sherwood Centre	Sherwood Park	1997	76,000	Save-On-Foods [1], CIBC, Rogers Video
London Place West	Calgary	1998	71,000	London Drugs, Bank of Montreal, Rogers Video
Kingsland Shopping Centre	Calgary	2005	45,000	Shoppers Drug Mart, Starbucks Coffee
Eastview Shopping Centre	Red Deer	2004	34,000	IGA (Sobeys), Bank of Montreal, 7-Eleven
			2,264,000	

Shopping Centre Portfolio *continued*

Property Name	Location	Year Built or Acquired	Gross Leasable Area	Major or Anchor Tenants
BRITISH COLUMBIA				
West Oaks Mall (3)	Abbotsford	2004	270,000	Save-On-Foods, Linens 'n Things, London Drugs, Future Shop, Michaels, Reitmans, CIBC, Pier 1 Imports, Sport Mart
Scott 72 Centre	Delta	2004	163,000	London Drugs, Staples, TD Canada Trust, Van City Savings, Starbucks
Langley Mall	Langley	2005	132,000	IGA, Army and Navy, TD Canada Trust
Pemberton Plaza	Vancouver	2005	78,000	Save-On-Foods, Van City Savings, Starbucks
Broadmoor Shopping Centre	Richmond	2005	43,000	Royal Bank, Pacific Coast Capital Savings
Time Marketplace	Vancouver	2004	38,000	IGA Marketplace (London Drugs), Shoppers Drug Mart
			724,000	
SASKATCHEWAN				
Regent Park Shopping Centre	Regina	1999	66,000	Safeway, Scotiabank
Registan Shopping Centre	Regina	1999	26,000	Safeway, Scotiabank
			92,000	
MARITIMES				
Cole Harbour Shopping Centre	Dartmouth	1997	52,000	Sobeys (1), Canadian Tire (1), Shoppers Drug Mart, TD Canada Trust
Ropewalk Lane	St. John's	1997	40,000	Dominion (Loblaws) (1)
			92,000	
TOTAL:			**13,623,000**	

Notes:
(1) Tenant (or other) owned
(2) All properties are held in freehold, except for Tillsonburg Town Centre and Centre commercial Maisonneuve.
(3) 50% owned, directly or indirectly, by the Company.
(4) 75% owned, directly or indirectly, by the Company.
(5) 80% owned, directly or indirectly, by the Company.
(6) 60% owned, directly or indirectly, by the Company.
(7) Sub-tenant

Management's Responsibility

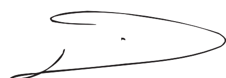
The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles.

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 4, 2005.

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

Karen H. Weaver, CPA
Chief Financial Officer

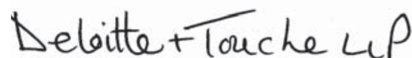
Auditors' Report

To the Shareholders of First Capital Realty Inc.

We have audited the consolidated balance sheets of First Capital Realty Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations, deficit 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



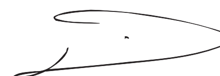
Chartered Accountants
Toronto, Ontario
March 4, 2005

Consolidated Balance Sheets

December 31 (thousands of dollars)	**2004**	2003
ASSETS		
Real Estate Investments		
Shopping centres (note 2)	**$ 1,489,250**	$ 1,186,792
Land and shopping centres under development (note 3)	**74,957**	62,845
Deferred costs (note 4)	**31,884**	13,587
Intangible assets (note 5)	**13,508**	1,643
	1,609,599	1,264,867
Investment in Equity One, Inc. (note 6)	**203,988**	211,412
Loans, mortgages and other real estate assets (note 7)	**18,130**	19,854
	1,831,717	1,496,133
Other assets (note 8)	**23,551**	18,140
Amounts receivable (note 9)	**14,276**	8,699
Cash and cash equivalents	**4,883**	79
Future income tax assets (note 16)	**17,623**	15,638
	$ 1,892,050	$ 1,538,689
LIABILITIES		
Mortgages and credit facilities (note 10)	**$ 1,002,965**	$ 786,301
Accounts payable and other liabilities (note 11)	**72,048**	54,410
Convertible debentures payable (note 12)	**–**	20,234
Future income tax liabilities (note 16)	**22,355**	12,750
	1,097,368	873,695
SHAREHOLDERS' EQUITY (note 13)	**794,682**	664,994
	$ 1,892,050	$ 1,538,689

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:



Chaim Katzman
Director

Dori J. Segal
Director

Consolidated Statements of Operations

Year ended December 31 (thousands of dollars, except per share amounts)	2004	2003
REVENUE		
Property rental revenue	$ 215,022	$ 154,656
Interest and other income	6,480	2,916
	221,502	157,572
EXPENSES		
Property operating costs	82,204	58,455
Interest expense (note 14)	53,649	43,324
Amortization (note 15)	37,312	12,574
Corporate expenses	11,639	8,919
	184,804	123,272
Equity income from Equity One, Inc. (note 6)	18,228	19,095
Income before the undernoted	54,926	53,395
Gain (loss) on disposition of real estate and investments	1,163	(201)
Dilution gain on investment in Equity One, Inc. (note 6)	3,201	17,911
Loss on settlement of convertible debentures (note 12)	(215)	–
Income before income and other taxes	59,075	71,105
Income and other taxes (note 16):		
Current	4,806	4,917
Future	16,982	22,162
	21,788	27,079
Net income	$ 37,287	$ 44,026
Net earnings per common share (note 17)		
Basic	$ 0.46	$ 0.91
Diluted	$ 0.45	$ 0.86

See accompanying notes to the consolidated financial statements

Consolidated Statements of Deficit

Year ended December 31 (thousands of dollars)	2004	2003
Deficit, beginning of year	$ (96,279)	$ (87,921)
Net income for the year	37,287	44,026
Interest and accretion on equity component of convertible debentures (net of tax of $8,672; 2003 – $10,288)	(18,681)	(21,877)
Dividends	(54,771)	(30,507)
Deficit, end of year	$ (132,444)	$ (96,279)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Year ended December 31 (thousands of dollars)	2004	2003
CASH FLOW PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	$ 37,287	$ 44,026
Items not affecting cash		
Amortization	35,332	11,364
Amortization of deferred financing fees	1,980	1,210
Amortization of above- and below-market leases	(289)	–
Amortization of deferred rent receivable	(3,559)	(641)
Gain on disposition of marketable securities	(12)	(74)
Loss (gain) on disposition of real estate	(1,151)	275
Loss on settlement of convertible debentures	215	–
Non-cash compensation expense	960	273
Equity income from Equity One, Inc.	(18,228)	(19,095)
Dilution gain on investment in Equity One, Inc.	(3,201)	(17,911)
Future income taxes	16,982	22,162
Deferred leasing costs	(13,823)	(4,886)
Dividends received from Equity One, Inc.	18,671	19,033
Net change in non-cash operating items	(2,755)	9,051
Cash provided by operating activities	68,409	64,787
INVESTING ACTIVITIES		
Acquisition of shopping centres	(154,252)	(232,615)
Acquisition of land for development	(24,399)	(6,266)
Acquisition of deferred costs	(8,820)	(2,694)
Acquisition of intangible assets and liabilities – net	(8,379)	(1,376)
Proceeds on disposition of real estate	8,523	2,911
Expenditures on shopping centres	(24,386)	(12,695)
Expenditures on land and shopping centres under development	(52,502)	(71,280)
Investment in common shares of Equity One, Inc.	(5,381)	(29,375)
Repayment from (advances to) development partners	1,286	(4,590)
Investment in marketable securities	(8,580)	(3,768)
Proceeds on disposition of marketable securities	8,758	4,908
Cash used in investing activities	(268,132)	(356,840)
FINANCING ACTIVITIES		
Proceeds of mortgage financings and credit facilities	169,086	317,107
Repayments of mortgages payable and credit facilities	(35,059)	(110,086)
Payment of financing fees	(2,250)	(2,665)
Issuance of common shares	159,938	137,618
Repayment or retirement of debentures	(35,134)	(15,057)
Payments on convertible debentures, net of interest expensed	(3,932)	(8,715)
Payment of dividends	(48,749)	(26,322)
Cash provided by financing activities	203,900	291,880
Effect of currency rate movement on cash balances	627	(113)
Increase (decrease) in cash and cash equivalents	4,804	(286)
Cash and cash equivalents, beginning of the year	79	365
Cash and cash equivalents, end of the year	$ 4,883	$ 79
SUPPLEMENTARY INFORMATION		
Cash income taxes paid	$ 4,110	$ 5,386
Cash interest paid (note 14)	$ 62,407	$ 55,647

See accompanying notes to the consolidated financial statements

1 Significant Accounting Policies

The Company was incorporated under the laws of Ontario to engage in the business of acquiring, developing, redeveloping, owning and operating neighbourhood and community shopping centres. The Company's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles. 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. The Company's investment in Equity One, Inc. is accounted for on the equity basis.

(b) Shopping Centres

Shopping centres are stated at cost less accumulated amortization. If it is determined that the carrying amount of a property exceeds the undiscounted estimated future net cash flows expected to be received from the ongoing use and residual worth of the property, it is reduced to its estimated fair value.

In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1581 and 3062, effective for transactions initiated after September 12, 2003, the purchase price of shopping centre properties is allocated to land, building, deferred leasing costs, and intangibles including lease origination costs associated with in-place leases, the value of above- and below-market leases, and the value of tenant relationships, if any.

Allocations of the purchase price are generally based on the following criteria:

Land is recorded at its estimated fair value.

Buildings are recorded at depreciated replacement cost based on estimates of prevailing construction costs for buildings of a similar class and age.

Deferred leasing costs, including tenant improvements, are recorded at depreciated replacement cost based on estimates of prevailing construction costs, taking into account the condition of tenants' premises and year of improvement.

Lease origination costs are determined based on estimates of the costs that would be required for the existing leases to be put in place under the same terms and conditions. These costs include leasing commissions, foregone rent and operating cost recoveries during an estimated lease-up period.

Values ascribed to above- and below-market in-place leases are determined based on the present value of the difference between the rents payable under the terms of the in-place leases and estimated market rents.

Tenant relationship values are determined based on the net costs avoided if the tenants were to renew their leases at the end of the existing term, adjusted for the estimated probability that the tenants will renew.

Any differences between the estimated fair values of the acquired assets and assumed liabilities and the cost of the acquired property is allocated on a pro rata basis to all of the acquired assets and assumed liabilities.

(c) Land and Shopping Centres Under Development

Land and shopping centres under development are stated at cost. If it is determined that the carrying amount of a property exceeds the undiscounted estimated future net cash flows expected to be received from the ongoing use and residual worth of the completed property, after taking into account estimated costs to complete the development, it is reduced to its estimated fair value.

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). Upon completion, the properties are classified as shopping centres.

(d) Deferred Costs

Deferred costs include tenant inducements and leasing costs incurred through leasing activities and deferred costs related to asset acquisitions.

(e) Intangible Assets and Liabilities

Intangible assets and liabilities include lease origination costs associated with in-place leases, the value of the above- and below-market leases, and the value of customer relationships, allocated to existing tenants in acquired assets.

(f) Impairment of Long-Lived Assets

Effective January 1, 2003, the Company adopted the new CICA recommendations for "Impairment of Long-Lived Assets". This standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that the net recoverable amount of a long-lived asset is less than its carrying value, the long-lived asset is written down to its fair value. Net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the long-lived asset. Previously, when a permanent impairment in value was determined to have occurred, a long-lived asset would be written down to its net recoverable amount rather than its fair value. Assets reviewed for impairment under this policy include shopping centres, land and shopping centres under development and intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

(g) Property Rental Revenue

Property rental revenue 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. Property rental revenue also includes the amortization of above- and below-market leases allocated on asset acquisitions.

The Company uses the straight-line method of recognizing rental revenue whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, a deferred rent receivable is recorded from the tenants for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenants.

Effective January 1, 2004, the Company adopted amendments to Section 1100 of the CICA Handbook where base rental income from leases with contractual rent increases is recognized on a straight-line basis. The difference between the rental income recognized and the amounts contractually due under the lease agreements is recorded as deferred rent receivable and included in amounts receivable. The change in accounting policy was applied prospectively. Previously, rental revenue was recognized as rent became contractually due under the terms of the lease agreements. Included in property rental revenue is the impact of the straight-lining of contractual rent increases of $2.9 million for 2004.

(h) Amortization

Buildings and improvements are amortized on a straight-line basis, so as to fully amortize the properties over their estimated useful lives, which vary but do not exceed 40 years. In accordance with recent amendments to Section 1100 of the CICA Handbook, effective January 1, 2004, the Company changed the amortization method for buildings from the 5% sinking fund basis to straight-line over the remaining useful life of the asset. The change in accounting policy was applied prospectively. The impact of the change in accounting policy was an increase of $18.4 million in buildings and improvements amortization expense for the year ended December 31, 2004.

Deferred costs, including leasing fees and tenant inducements incurred on securing leases, other than initial leases on shopping centres under development, are amortized over the term of such leases on a straight-line basis.

The above- and below-market lease values are amortized and recorded as either an increase (in the case of below-market leases) or a decrease (in the case of above-market leases) to property rental revenue over the remaining term of the associated leases.

Lease origination costs associated with in-place leases are amortized over the remaining life of the associated leases.

The value of tenant relationships is amortized over the expected term of the relationship. In the event a tenant vacates its leased space prior to the contractual termination of the lease, and no rental payments are being made on the lease, any unamortized balance relating to that lease will be expensed.

Commitment fees and other costs incurred in connection with debt financing are amortized over the term of such financing on a straight-line basis.

(i) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and short-term market investments with original maturities of three months or less.

(j) 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 weighted average daily exchange rate for the year.

(k) Hedging Relationships

Effective January 1, 2004, the Company adopted Accounting Guideline 13, "Hedging Relationships," issued by the CICA in respect of hedging relationships. The guideline increases the amount of documentation and monitoring of hedging strategies required for the application of hedge accounting. The adoption of this new guideline did not have a significant impact on the Company's consolidated financial statements.

(l) Derivative Financial Instruments

Derivative financial instruments are utilized by the Company in the management of its foreign currency and interest rate exposures. Realized and unrealized gains and losses on derivative financial instruments designated as hedges of financial risks are included in income in the same period as when the underlying asset, liability or anticipated transaction affects income. The Company documents its eligibility for hedge accounting and assesses the effectiveness of these relationships based on the degree of expected future offsetting cash flows.

The Company uses forward exchange contracts to manage its foreign exchange risk exposures. The resulting gains or losses on forward exchange contracts, which represent designated hedges of a portion of the net investment in the United States self-sustaining operations, are recorded in the cumulative translation account in shareholders' equity.

Derivative financial instruments that are not designated as hedges are carried at estimated fair values, and gains and losses arising from changes in fair values are recognized in income in the period the changes occur. The Company does not utilize derivative financial instruments for trading or speculative purposes.

(m) 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 on a straight-line basis 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 and is accreted by an annual charge to the deficit, net of tax. The portion relating to the holder option remains a fixed amount over the term of the debentures.

(n) 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.

(o) Stock-Based Compensation Plan

The Company has a stock-based compensation plan as described in note 13(d). Effective January 1, 2003, the Company adopted the new recommendations of the CICA with respect to stock-based compensation. The new standard requires stock-based payments and direct awards made to non-employees and direct awards, stock appreciation rights and similar awards to employees that are settled in cash or equity instruments to be determined using a fair value-based method.

In accordance with the new standard, the Company recognizes compensation expense for stock-based compensation awards at the fair value as at the granting date over the vesting period. This change has been made on a prospective basis, and as such applies only to grants made on or after January 1, 2003.

(p) 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.

(q) Future Accounting Policy Changes

(i) Convertible Debentures

Effective January 1, 2005, the Company will adopt the CICA's new accounting requirements on the classification of financial instruments as liabilities or equity. The CICA amended its disclosure requirements surrounding the presentation of financial instruments that may be settled, at the issuer's discretion, in cash or with a variable number of the issuer's own equity instruments, as liabilities. As a result of these new guidelines, a portion of convertible debentures currently presented as equity on the Company's balance sheet will be reclassified as debt. Correspondingly, interest expense and related issue costs recognized on the convertible debentures will be presented on the consolidated statements of operations as opposed to its current presentation on the consolidated statements of deficit. The value ascribed to the conversion rights of the holders and related issue costs will remain in shareholders' equity. These presentation changes will have no impact on the Company's earnings per share. This change will be applied retroactively.

(ii) Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 (AcG15), Consolidation of Variable Interest Entities ("VIE"), which is effective January 1, 2005. AcG15 provides guidance on identifying entities for which control is achieved through means other than through voting rights, and how to determine when and which business enterprises should consolidate the VIE. Management is continuing its review of the Company's current and future interests, particularly its joint ventures relating to property development and management, to determine the applicability and impact of AcG15 on its consolidated financial statements.

2 Shopping Centres

(thousands of dollars)	2004	2003
Land	$ 312,921	$ 237,057
Buildings and improvements	1,241,895	986,502
	1,554,816	1,223,559
Accumulated amortization	(65,566)	(36,767)
	$ 1,489,250	$ 1,186,792

During 2004, the Company acquired interests in 22 properties totalling 1.9 million square feet for $263.2 million. These properties were financed with $137.7 million in cash, $87.6 million in assumed mortgages, $35.1 million in new mortgages and $2.8 million with a vendor take-back mortgage.

In August 2004, the Company disposed of a 50,000 square foot shopping centre in Leduc, Alberta for cash proceeds of $7.0 million, net of commission and closing costs, and realized a gain of $0.3 million. The Company also disposed of a piece of land in Alberta, which was held through a joint venture, for cash proceeds of $1.5 million, and realized a gain of $0.9 million.

In 2003, the Company acquired interests in 18 properties totalling 1.7 million square feet for $249.2 million. The properties were financed with $107.1 million in cash, $10.0 million in assumed mortgages, $129.6 million in new mortgages, and $2.5 million in shares of the Company.

The Company's interests in two leasehold properties (2003 – two) have a net book value of $21.7 million (2003 – $21.2 million), net of accumulated amortization of $2.2 million (2003 – $1.3 million).

3 Land and Shopping Centres Under Development

Interest and general and administrative expenses capitalized to development properties during the year ended December 31, 2004 totalled $4.5 million (2003 – $3.5 million) and $0.9 million (2003 – $0.3 million), respectively. The costs to complete projects currently under development are estimated at $40 million of which $32 million has been committed.

4 Deferred Costs

(thousands of dollars)	2004	2003
Deferred leasing costs	$ 28,834	$ 16,135
Deferred leasing costs on acquisitions	11,471	2,694
	40,305	18,829
Accumulated amortization	(8,421)	(5,242)
	$ 31,884	$ 13,587

5 Intangible Assets

(thousands of dollars)	2004	2003
Lease origination costs	$ 11,863	$ 1,587
Above-market in-place leases	1,423	68
Tenant relationships	1,913	–
	15,199	1,655
Accumulated amortization	(1,691)	(12)
	$ 13,508	$ 1,643

6 Investment in Equity One, Inc.

Equity One, Inc. ("Equity One") (NYSE:EQY), is a self-administered and self-managed real estate investment trust in the United States. The following table summarizes the activity of the investment in Equity One.

(thousands of dollars)	2004	2003
Investment in Equity One, beginning of year	$ 211,412	$ 208,972
Equity income	18,228	19,095
Less dividends received	(18,671)	(19,033)
Purchase of Equity One common shares (a)	5,381	29,375
Dilution gain (b)	3,201	17,911
Cumulative currency effect	(15,563)	(44,908)
Investment in Equity One, end of year (c)	$ 203,988	$ 211,412
Weighted average ownership interest in Equity One	18%	20%

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

(a) The Company's U.S. subsidiaries acquired an additional 218,423 (2003 – 1,396,169) common shares of Equity One at an average price of US$18.45 (2003 – US$14.35) per share.

(b) In 2004, Equity One's common shares outstanding increased from 68.7 million to 72.9 million, resulting in a reduction of the Company's ownership interest in Equity One from 18.2% at December 31, 2003 to 17.5% at December 31, 2004.

In 2003, Equity One's common shares outstanding increased from 34.2 million to 68.7 million, resulting in a reduction of the Company's ownership interest in Equity One from 33% at December 31, 2002 to 18.2% at December 31, 2003.

As a result, the Company has recorded dilution gains of $3.2 million and $17.9 million during 2004 and 2003, respectively.

(c) The closing price on the NYSE of Equity One's common shares at December 31, 2004 was US$23.73 (December 31, 2003 – US$16.88) per share. The book value per share of the Company's investment in Equity One at December 31, 2004 is US$13.32 (December 31, 2003 – US$13.02). At December 31, 2004, 72.9 million (December 31, 2003 – 68.7 million) shares of Equity One were outstanding, of which 12.7 million (December 31, 2003 – 12.5 million) shares were held by the Company.

7 Loans, Mortgages and Other Real Estate Assets

(thousands of dollars)	2004	2003
Loans receivable from development partners (a)	$ **16,578**	$ 17,885
Loans and mortgages receivable (b)	**1,180**	1,969
Real estate marketable securities	**372**	–
	$ **18,130**	$ 19,854

(a) The Company has funded its partners' share of certain development activities. The loans bear interest at an average rate of 10% and are repayable from the partners' share of proceeds generated from refinancings or sales. The Company has taken assignments of the development partners' equity interests in the development partnerships as security for the loans receivable.

(b) The Company has interests in various loans and mortgages receivable which bear interest at varying rates currently ranging from 8% to 9% per annum, are secured by real estate assets similar in nature to the Company's shopping centres and mature over varying periods through 2021.

8 Other Assets

(thousands of dollars)	2004	2003
Deferred financing, issue and interest rate hedge costs (net of accumulated amortization of $7,323 (2003 – $6,042))	$ **6,999**	$ 7,188
Prepaid expenses and other assets	**11,693**	8,642
Deposits and costs on properties under option	**4,859**	2,310
	$ **23,551**	$ 18,140

9

Amounts Receivable

(thousands of dollars)	2004	2003
Trade receivables	$ 6,786	$ 4,281
Other receivables	2,298	2,853
Deferred rent receivables	5,192	1,565
	$ 14,276	$ 8,699

10

Mortgages and Credit Facilities

		2004	
(thousands of dollars)	Canada	U.S.	Total
Fixed rate	$ 838,207	$ 42,070	$ 880,277
Floating rate	61,732	60,956	122,688
	$ 899,939	$ 103,026	$ 1,002,965

		2003	
(thousands of dollars)	Canada	U.S.	Total
Fixed rate	$ 639,733	$ 38,895	$ 678,628
Floating rate	37,758	69,915	107,673
	$ 677,491	$ 108,810	$ 786,301

Mortgages and credit facilities are secured by shopping centres and the Equity One common shares.

Canada

Fixed rate financing bears interest at an average fixed rate of 6.8% (2003 – 7.0%) and matures in years ranging from 2005 to 2019. Floating rate financing bears interest at floating rates determined by reference to Canadian prime lenders, bankers' acceptance rates, or the London Inter-Bank Offering Rate ("LIBOR"), and matures in 2005.

United States

Fixed rate financing is comprised of LIBOR swap agreements on a notional US$35 million (2003 – US$30 million) at an average fixed rate of 4.3% (2003 – 4.3%) plus applicable spreads and matures by 2014. Floating rate financing bears interest at the LIBOR plus 150 – 220 basis points and matures in 2007. Floating rate financing of $12.0 million (US$10.0 million) has been capped at 7.0% until September 2006.

Principal repayments of mortgages and credit facilities outstanding as at December 31, 2004 are as follows:

(thousands of dollars)	Canada	U.S.	Total
2005	$ 115,464	$ 10,561	$ 126,025
2006	39,809	6,462	46,271
2007	99,556	86,003	185,559
2008	43,839	–	43,839
2009	42,229	–	42,229
Thereafter	559,042	–	559,042
Total	$ 899,939	$ 103,026	$ 1,002,965

At December 31, 2004, the Company has $47.8 million of undrawn credit facilities, which are secured by certain shopping centres, available for acquisitions, development, and general corporate purposes. In addition, the Company has unencumbered shopping centres with a book value of approximately $43.3 million.

11 Accounts Payable and Other Liabilities

(thousands of dollars)	2004	2003
Trade payables and accruals	$ **36,495**	$ 29,631
Accrued interest	**7,766**	9,696
Dividends payable	**15,398**	9,399
Tenant deposits	**3,644**	2,414
Deferred income and other liabilities	**5,480**	2,997
Below-market in-place leases on acquisitions	**3,265**	273
	$ **72,048**	$ 54,410

12 Convertible Debentures Payable

As at December 31, 2004, the Company has two series of convertible debentures outstanding. The debentures are unsecured subordinated debentures, require interest payments 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. 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.

Other terms of the convertible debentures:

Interest Rate	Conversion Price	Maturity	Earliest Redemption Date
7.875%	$16.43 per common share	January 31, 2007	Redeemed August 2004
7.00%	$22.71 per common share	February 28, 2008	February 28, 2004
7.25%	$24.40 per common share	June 30, 2008	June 30, 2004

Components of the convertible debentures:

(thousands of dollars)		**2004**			2003		
Interest Rate							
Coupon	Implicit	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
7.875%	9.125%	$ **–**	$ **–**	$ **–**	$ 97,522	$ 20,234	$ 81,088
7.00%	8.25%	**99,999**	**–**	**104,275**	99,999	–	103,185
7.25%	9.6%	**161,702**	**–**	**158,431**	161,702	–	155,448
		$ **261,701**	$ **–**	$ **262,706**	$ 359,223	$ 20,234	$ 339,721

On August 30, 2004, the Company redeemed in cash the outstanding $35.1 million principal amount of the 7.875% convertible debentures. Prior to the redemption date, holders of $62.4 million principal amount of 7.875% convertible debentures converted their debentures into 3,797,212 common shares at a conversion price of $16.43 in accordance with the terms and conditions of the trust indenture.

Accounting for the early redemption of the 7.875% convertible debentures resulted in a non-cash debt settlement expense of $0.2 million and contributed surplus of $2.1 million.

In 2004, 450,426 (2003 – 541,252) common shares and 726,717 (2003 – 831,224) common shares were issued to pay interest to holders of the 7.0% and 7.25% convertible debentures, respectively.

On February 16, 2005, the Company announced that it will redeem all of the 7.25% convertible debentures (see note 22 (c)).

13 Shareholders' Equity

(thousands of dollars)	2004	2003
Share capital (a)	$ 673,660	$ 422,916
Equity component of convertible debentures (g) (note 12)	262,706	339,721
Warrants (c)	711	6,591
Options and deferred share units (d) (e)	1,273	298
Cumulative currency translation adjustment (f)	(13,347)	(8,253)
Contributed surplus (note 12)	2,123	–
Deficit (g)	(132,444)	(96,279)
	$ 794,682	$ 664,994

(a) Share Capital

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. No preference shares have been issued. 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 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, 2002	19,142,717	$ 200,183
Issuance of common shares (b)	5,753,000	84,117
Redemption and conversion of 8.5% convertible debentures	3,875,242	59,300
Acquisitions (note 2)	202,535	2,490
Payment of interest on convertible debentures	1,372,476	18,724
Exercise of warrants (c)	4,651,784	58,604
Exercise of options (d)	112,000	1,428
Issue costs, net of income taxes of $1,136,000	–	(1,930)
Issued and outstanding at December 31, 2003	35,109,754	422,916
Issuance of common shares (b)	5,366,000	86,866
Conversion of 7.875% convertible debentures (note 12)	3,797,212	66,191
Payment of interest on convertible debentures (note 12)	1,177,143	18,724
Exercise of warrants (c)	5,849,024	76,627
Exercise of options (d)	360,450	4,615
Issue costs, net of income taxes of $830,380	–	(2,279)
Issued and outstanding at December 31, 2004	**51,659,583**	**$ 673,660**

(b) Issuance of Common Shares

On March 11, 2004, 3,366,000 common shares were issued at a price of $16.30 per share, for total gross proceeds of approximately $54.9 million, before commission and issue costs.

On August 30, 2004, 2,000,000 common shares were issued at a price of $16.00 per share for total gross proceeds of $32.0 million, with no commission costs.

In 2003, 5,753,000 common shares were issued for total gross proceeds of $84.1 million, before commission and issue costs.

(c) Warrants

During 2004, a total of 4,849,024 (2003 – 4,651,784) share purchase warrants were exercised at $11.80 per share resulting in proceeds to the Company of $57.2 million (2003 – $54.9 million). In addition, 1,000,000 (2003 – nil) advisory warrants were exercised at $13.53 per share resulting in proceeds of $13.5 million. The equity component of the warrants exercised, $5.9 million (2003 – $3.7 million), was transferred to share capital.

At December 31, 2004, there were 927,405 outstanding share purchase warrants (2003 – 5,776,429) exercisable at $11.80 per share during a three-month exercise period commencing on June 1 and ending on August 31 in each year to 2008, on and subject to certain terms and conditions, and may be exercisable in certain other limited circumstances.

(d) Stock Options

The Company is authorized to grant up to 2,125,000 (2003 – 2,125,000) common share options to the employees, officers and directors of the Company and third party service providers. As of December 31, 2004, 395,000 (2003 – 695,000) common share options are available to be granted. Options granted by the Company generally expire ten years from the date of grant and vest over three years. The outstanding options have exercise prices ranging from $12.42 to $16.91. In 2004, $0.2 million (2003 – $ nil) has been recorded as an expense due to the vesting of options granted after January 1, 2003.

		2004		2003
		Weighted Average		Weighted Average
	Units	Exercise Price	Units	Exercise Price
Outstanding, beginning of year	**1,318,000**	**$ 13.44**	1,199,500	$ 12.92
Granted	**320,000**	**$ 16.90**	250,500	$ 15.65
Exercised	**(360,450)**	**$ 12.78**	(112,000)	$ 12.75
Cancelled	**(20,000)**	**$ 14.74**	(20,000)	$ 13.82
Outstanding, end of year	**1,257,550**	**$ 14.49**	1,318,000	$ 13.44
Options vested at end of year	**657,133**	**$ 13.87**	774,833	$ 13.46
Weighted average remaining life (years)	**7.2**		7.5	

During the year ended December 31, 2004, the Company granted 320,000 options (2003 – 250,500 options) which had an approximate fair value of $0.3 million (2003 – $0.3 million) at the time of issue. Approximately $0.2 million (2003 – $0.1 million) has been recorded as an expense in the consolidated statements of operations.

The fair value associated with the options issued during 2004 was calculated using the Black-Scholes Model for option valuation, assuming an average volatility of 17% (2003 – 18%) on the underlying shares, a ten-year term to expiry, and the ten-year weighted average risk-free interest rate (typically, the ten-year Canada bond rate at the date of grant).

(e) Share Unit Plans

The Company's share unit plans include a Directors Deferred Share Unit Plan, an Employee Restricted Share Unit Plan ("Employee RSU Plan") and a Chief Executive Officer Restricted Share Unit Plan ("CEO RSU Plan"). A total of 350,000 common shares has been reserved for issuance under these plans. As at December 31, 2004, 32,570 units (2003 – 14,248 units) have been granted under the Directors Deferred Share Unit Plan, and $0.3 million (2003 – $0.2 million) has been recorded as an expense.

In 2004, under the CEO RSU Plan, 30,000 units were granted at a price of $16.96, and 10,000 units were granted at a price of $16.60 in respect of 2003. A further 40,000 units were granted at a price of $16.60 in respect of 2004.

In 2004, under the Employee RSU Plan, 15,000 units were granted at a price of $16.96, and 5,000 units were granted at a price of $16.60 in respect of 2003. A further 20,000 units were granted at a price of $16.60 in respect of 2004.

The Company recorded an expense of $0.5 million in 2004 (2003 – $ nil) for the grants under the CEO RSU Plan and Employee RSU Plan.

(f) Cumulative Currency Translation Adjustment

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 U.S. currency movements during the year on these net assets and $0.3 million (2003 – $2.7 million) relating to dilution gains as a result of shares issued by Equity One during 2004.

The rate of exchange in effect on December 31, 2004 was US$1.00 = Cdn$1.20 (December 31, 2003 – Cdn$1.30). The average rate of exchange for 2004 was US$1.00 = Cdn$1.30 (2003 – Cdn$1.40).

(g) Issue Costs on Equity Component of Convertible Debentures

Effective January 1, 2003, the Company reclassified within shareholders' equity, issue costs (net of tax) of $1.032 million and $1.132 million from the equity component of the 7% and 7.25% convertible debentures, respectively, to the deficit.

The reclassification represents the amount of issue costs that should have been amortized directly to the deficit from the date of issuance of the convertible debentures through to December 31, 2002.

There is no change to net income or shareholders' equity as a result of this reclassification.

14 Interest

(thousands of dollars)	2004	2003
Mortgage and credit facility interest expense	$ 52,462	$ 38,722
Debenture interest expense	–	1,033
Convertible debenture interest expense	1,187	3,569
Interest expense	53,649	43,324
Payments on convertible debentures, net of interest expensed	22,656	27,434
Less: convertible debenture interest paid in common shares	(18,724)	(18,724)
Interest capitalized to land and shopping centres under development	4,499	3,481
Other	327	132
Cash interest paid	$ 62,407	$ 55,647

15 Amortization

(thousands of dollars)	2004	2003
Shopping centres	$ 29,194	$ 8,368
Deferred costs	4,447	2,629
Deferred financing fees	1,980	1,210
Intangible assets	1,495	12
Other	196	355
Amortization	$ 37,312	$ 12,574

16 Income and Other Taxes

The Company's business activities are carried out directly and through operating subsidiaries, 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 following table summarizes the provision for income and other taxes:

(thousands of dollars)	2004	2003
Provision for income taxes on income at the combined		
Canadian federal and provincial income tax rates	**$ 21,147**	$ 26,096
Increase (decrease) in the provision for income taxes		
due to the following items:		
Large Corporations Tax	**2,150**	1,950
Change in future income tax rates	**77**	(2,202)
Other	**(1,586)**	1,235
Income and other taxes	**$ 21,788**	$ 27,079

The Company's future income tax assets are summarized as follows:

(thousands of dollars)	2004	2003
Losses available for carry-forward	**$ 15,092**	$ 11,417
Shopping centres	**–**	2,235
Other assets	**1,763**	1,634
Canadian and U.S. minimum tax credits	**768**	352
	$ 17,623	$ 15,638

The Company's future income tax liabilities are summarized as follows:

(thousands of dollars)	2004	2003
Investments	**$ 13,880**	$ 12,750
Shopping centres	**8,475**	–
Investments	**$ 22,355**	$ 12,750

At December 31, 2004, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately $38 million (2003 – $32 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, 2006 and December 31, 2011.

17 Per Share Calculations

The following tables set forth the computation of per share amounts:

(thousands of dollars, except per share amounts)	2004	2003
Net income	$ **37,287**	$ 44,026
Accretion on equity component of convertible debentures, net of tax	**(18,681)**	(21,877)
Contributed surplus on settlement of convertible debentures	**2,123**	–
Basic and diluted net income available to common shareholders	$ **20,729**	$ 22,149
Denominator		
Weighted average shares outstanding for basic per share amounts	**44,632,159**	24,323,968
Outstanding warrants	**795,231**	1,405,870
Outstanding options	**225,478**	86,959
Denominator for diluted net income available to common shareholders	**45,652,868**	25,816,797
Basic earnings per share	$ **0.46**	$ 0.91
Diluted earnings per share	$ **0.45**	$ 0.86

The Company restated its diluted earnings per share amount for the year ended December 31, 2003 to reflect the exclusion of certain securities from the calculation as they were anti-dilutive. As a result the diluted earnings per share amount decreased by five cents.

The following securities were not included in the diluted per share calculation as the effect would have been anti-dilutive:

		Number of shares if converted or exercised	
	Exercise Price	2004	2003
Common share options	$ 15.59	–	11,500
Common share options	$ 15.65	–	239,000
Common share options	$ 16.85	**45,000**	–
Common share options	$ 16.91	**275,000**	–
Convertible debentures – 8.5%	$ 14.98	–	3,594,874
Convertible debentures – 7.875%	$ 16.43	**3,767,790**	5,935,606
Convertible debentures – 7.0%	$ 22.71	**4,403,307**	4,403,307
Convertible debentures – 7.25%	$ 24.40	**6,627,127**	6,627,127

18 Risk Management

RISK MANAGEMENT

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(a) Interest Rate Risk

The Company attempts to structure its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate fluctuations. A portion of the Company's mortgages and credit facilities are floating rate instruments. From time to time, the Company may enter into interest rate swap contracts or other financial instruments to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount. The fair value of the Company's interest rate swaps and other contracts is a positive value of approximately $0.1 million due to changes in interest rates since the contracts were entered into.

(b) Credit Risk

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss by ensuring that its tenant mix is diversified, by limiting its exposure to any one tenant and by the hypothecated properties. Thorough credit assessments are conducted in respect of all new leasing.

(c) Currency Risk

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 serviced by the cash flow generated by the Company's dividends from Equity One. The Company also finances a portion of its U.S. net investment through its Canadian company with U.S. dollar-denominated credit facilities. In the normal course of business the Company enters into forward foreign exchange contracts, which represent designated hedges of a portion of the net investment in the United States self-sustaining operations. While the U.S. dollar financings and forward contracts reduce the Company's exposure to fluctuations in foreign currency exchange rates, not all of its net U.S. dollar currency risk has been hedged. 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.

At December 31, 2004, there are outstanding forward exchange contracts to sell a notional amount of US$6.0 million, maturing over the next six months at a weighted average exchange rate of Cdn$1.29. The fair value of the outstanding forward exchange contracts, based on cash settlement requirements at December 31, 2004, is a positive value of $0.5 million due to changes in the foreign currency exchange rate since the dates on which the contracts were made.

(d) Other

The fair values of the majority of the Company's financial assets and liabilities, representing net working capital, approximate their recorded values at December 31, 2004 and 2003 due to their short-term nature.

The fair value of the Company's loans and mortgages receivable approximates carrying value. The fair value of the Company's mortgages and credit facilities exceeds the recorded value by approximately $60 million due to changes in interest rates since the dates on which the individual mortgages were assumed. Based on publicly traded listing prices, as at December 31, 2004, the market value of the principal amount of the convertible debentures was $268.4 million (2003 – $355.9 million).

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, 2004, is summarized as follows:

(thousands of dollars)	**Canada**	**U.S.**	**Total**
Property rental revenue	**$ 215,022**	**$ –**	**$ 215,022**
Property operating costs	**82,204**	**–**	**82,204**
Net operating income	**132,818**	**–**	**132,818**
Equity income from Equity One, Inc.	**–**	**18,228**	**18,228**
Interest and other income	**6,480**	**–**	**6,480**
Interest expense	**48,669**	**4,980**	**53,649**
Corporate expenses	**10,785**	**854**	**11,639**
Operating income before amortization	**79,844**	**12,394**	**92,238**
Amortization	**37,175**	**137**	**37,312**
Operating income	**$ 42,669**	**$ 12,257**	**$ 54,926**

Operating income by geographic segment for the year ended December 31, 2003, is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	$ 154,656	$ –	$ 154,656
Property operating costs	58,455	–	58,455
Net operating income	96,201	–	96,201
Equity income from Equity One, Inc.	–	19,095	19,095
Interest and other income	2,869	47	2,916
Interest expense	38,931	4,393	43,324
Corporate expenses	8,454	465	8,919
Operating income before amortization	51,685	14,284	65,969
Amortization	12,473	101	12,574
Operating income	$ 39,212	$ 14,183	$ 53,395

20 Joint Ventures

The Company is a participant in 15 (2003 – 14) joint ventures that own land, shopping centres, and shopping centres under development as at December 31, 2004. The Company's participation in these joint ventures ranges from 50% to 80%.

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

(thousands of dollars)	2004	2003
Assets	**$ 129,858**	$ 88,328
Liabilities	**$ 87,107**	$ 52,730
Revenues	**$ 13,763**	$ 7,788
Expenses	**$ 8,006**	$ 3,515
Cash flow provided by (used in):		
Operating activities	**$ 8,334**	$ 4,753
Investing activities	**$ (41,565)**	$ (33,118)
Financing activities	**$ 36,577**	$ 26,477

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

21 Contingencies

(a) The Company is contingently liable, jointly and severally, for approximately $30.3 million (2003 – $19.1 million) to various lenders in connection with loans advanced to its joint-venture partners secured by the partners' interest in the joint ventures.

(b) The Company is also contingently liable for letters of credit in the amount of $10.9 million (2003 – $11.6 million) issued in the ordinary course of business.

22 Subsequent Events

(a) On January 12, 2005, the Company announced it was broadening its internal operation capabilities to include all leasing, development, construction management, all tenant co-ordination and property management. The Company also announced that it has entered into a joint-venture arrangement with Brookfield Lepage Johnson Controls (BLJC) to operate its basic property management services, effective April 1, 2005. Effective with this arrangement, the Company terminated its existing property management agreement.

(b) On January 26, 2005, the Company issued 2,700,000 common shares, through a private placement, at $19.25 per share for gross proceeds of $52 million.

(c) On February 16, 2005, the Company announced that it will redeem the $161.7 million aggregate principal amount of its outstanding 7.25% convertible debentures, together with accrued and unpaid interest, on March 31, 2005 by issuance of common shares.

(d) On February 16, 2005, the Company announced that it will pay a special first quarter dividend of $0.50 per common share on April 6, 2005 to shareholders of record on March 30, 2005. The dividend includes the Company's ordinary dividend of $0.30 per common share plus an additional $0.20 per common share.

(e) On February 28, 2005, in accordance with the terms of the 7.0% convertible debentures, 187,864 common shares were issued to pay interest to holders of the Company's 7.0% convertible debentures.

(f) The Company purchased four properties and two land sites for development totalling 268,000 square feet for approximately $49.4 million. Consideration paid was $20.9 million in cash, $18.2 million in assumed mortgages and $10.3 million in new mortgage financing.

23 Comparative Amounts

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

Corporate Governance

Sound corporate governance practices are an important part of First Capital Realty's corporate culture. First Capital Realty has adopted certain practices and procedures to ensure that effective corporate governance practices are followed and that the Board functions independently of management. The following are highlights of the Company's approach to governance:

- The Board of Directors and management believe that sound and effective corporate governance is essential to the Company's performance. The Board has been reviewing its approach to corporate governance in light of recent regulatory developments to ensure that its commitment to high standards of corporate governance is maintained.
- The Board of Directors supervises the conduct of the affairs of the Company. In carrying out its responsibilities, the Board appoints the senior executives of the Company and meets with them on a regular basis to receive and consider reports on the Company's business. Along with those matters which must by law be approved by the Board, key strategic decisions are also submitted by management to the Board for approval. In addition to approving specific corporate actions, the Board reviews and approves the reports issued to shareholders, including annual and interim financial statements, as well as materials prepared for shareholders' meetings. The Board also approves the Company's overall business strategies and annual business plans for achieving its objectives.
- The Board is currently comprised of eight directors, six of whom are unrelated and independent.
- The Board has established two committees comprised entirely of unrelated and independent directors to assist it in fulfilling its responsibilities. Each of these committees operates under a written charter.

    The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities in relation to: the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements related to financial reporting; the qualifications, independence and performance of the Company's auditor; the design and implementation of internal controls and disclosure controls; and any additional matters delegated to the Audit Committee by the Board. All of the members of the Audit Committee are financially literate.

    The Compensation and Corporate Governance Committee is responsible for assisting the Board in fulfilling its oversight responsibilities in relation to: the appointment, development, compensation and retention of senior management; the management of employee benefit plans; the Company's overall approach to corporate governance including the size, composition and structure of the Board and its committees; education for directors; related party transactions and other matters involving possible conflicts of interest; and any additional matters delegated to the Compensation and Corporate Governance Committee by the Board.

Board of Directors

CHAIM KATZMAN

Chaim Katzman
Chairman
First Capital Realty Inc.
North Miami Beach, Florida
Chairman of the Company. Also serves as Chairman and Chief Executive Officer of Equity One, Inc. and Chairman of Gazit-Globe, the Company's largest shareholder.

DORI SEGAL

Dori J. Segal
President and
Chief Executive Officer
First Capital Realty Inc.
Toronto, Ontario
President and Chief Executive Officer of the Company. Also President and Director of Gazit-Globe, and Director of Equity One, Inc.

JON HAGAN

Jon Hagan, C.A.
Consultant – JN Hagan Consulting
Toronto, Ontario
Principal, JN Hagan Consulting, Director of Bentall Corporation and Sunrise Senior Living REIT. Mr. Hagan has over 25 years experience with leading Canadian real estate corporations including Cadillac Fairview Corporation, Empire Company Limited and Cambridge Shopping Centres Limited.

JOHN HARRIS

John Harris
Private Real Estate Investor
Toronto, Ontario
A private real estate investor with over 25 years experience in real estate investment and capital markets. Mr. Harris served in senior positions at real estate investment banking firms including Merrill Lynch Canada Inc., Midland Walwyn Inc. and Deutsche Bank.

NATHAN HETZ

Nathan Hetz, C.P.A.
Chief Executive Officer
and Director
Alony Hetz Properties and Investment Ltd.
Ramat Gan, Israel
Chief Executive Officer and Director of Alony Hetz Properties, a real estate investment company. Also serves as a Director of Equity One, Inc. Previously a Director of United Mizrahi Bank Ltd.

STEVEN RANSON

Steven K. Ranson, C.A.
President and
Chief Executive Officer
Home Equity Income Trust
Toronto, Ontario
President and Chief Executive Officer, Home Equity Income Trust. Mr. Ranson has over 20 years experience in financial services and capital markets.

MOSHE RONEN

Moshe Ronen
Barrister and Solicitor
Thornhill, Ontario
Legal practice focused on business and real estate law and public policy. Mr. Ronen is a member of the Board of Directors of several institutions, including North York General Hospital and the Jewish National Fund.

GARY SAMUEL

Gary M. Samuel
Partner, Crown Realty Partners
Toronto, Ontario
Partner in Crown Realty, a private real estate investment and management company. Previously, Chief Executive Officer, of Royop Properties Corporation and Chief Executive Officer of Canadian Real Estate Investment Trust.

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Annual Shareholders' Meeting

May 26, 2005
TSX Conference Centre
130 King Street West
Toronto, Ontario
at 4:00 p.m.

Toronto Stock Exchange Listings

Common Shares:	FCR
7% convertible debentures:	FCR.DB.C
Warrants:	FCR.WT

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President and CEO

Sylvie Lachance
Executive Vice President

Karen H. Weaver
Chief Financial Officer & Secretary

Brian Kozak
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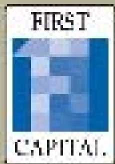

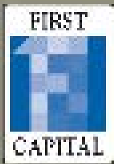

Shopping For Everyday Life