Shopping For Everyday Life®

FIRST CAPITAL REALTY INC.
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First Capital Realty Inc. Annual Report 2005

Location Location Location

First Capital Realty Inc.
Annual Report 2005

Shopping For Everyday Life®

Shopping For Everyday Life®

LOCATION, LOCATION, LOCATION.

First Capital Realty [TSX:FCR] is Canada's leading owner, developer and operator of neighbourhood and community supermarket-anchored shopping centres located predominantly in growing metropolitan areas. 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. 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)	2005	2004
Real estate investments	$ 2,392,270	$ 1,831,717
Shareholders' equity	$ 842,544	$ 548,493
Revenues	$ 268,642	$ 221,502
Net operating income	$ 165,049	$ 132,818
Funds from operations (FFO)	$ 94,666	$ 64,664
FFO per diluted share	$ 1.48	$ 1.42
Dividends per share	$ 1.20	$ 1.17
Debt to market capitalization	44.7%	56.4%

STRATEGICALLY LOCATED

ANNUAL REPORT CONTENTS

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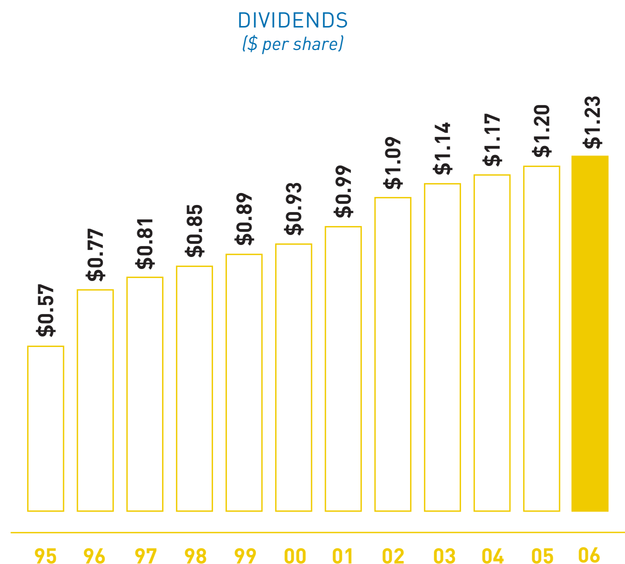
WHY INVEST IN FIRST CAPITAL REALTY?

- *Clear and consistent long-term strategy – combination of growth and defensive approach*
- *High quality portfolio of assets – our "private collection"*
- *Strong financial position – recapitalized balance sheet, moderate leverage*
- *Committed and entrepreneurial team – aligned with shareholders*
- *11 consecutive years of increased dividends*

A growth strategy applied to a stable business

137 properties totalling over 16.3 million square feet of gross leasable area



2005 ACHIEVEMENTS:
GROWTH, DIVERSIFICATION, DISCIPLINE

(1) *We Grew Our Business*

We take a highly disciplined approach to growing our business through acquisitions, development and proactive management in all urban markets where we operate. Growth from these activities in 2005 generated a 21% increase in revenues and a 24% increase in net operating income.

(2) *We Achieved Accretive Growth*

Our objective is to generate absolute and accretive growth as measured by FFO and FFO per diluted share. Despite a competitive and challenging marketplace we achieved our objectives in 2005 increasing FFO by 46% to $94.7 million and FFO per diluted share by 4% to $1.48.

(3) *We Improved Our Financial Position*

Our successful growth strategy and discipline have resulted in a strong financial position for First Capital. In 2005, we improved our ratio of total debt to market capitalization from 56.4% to 44.7% at December 31, 2005.

(4) *We Distributed More Cash to Our Shareholders*

We increased our dividends in 2005 and met our goal of moderately increasing dividends to shareholders while maintaining a conservative payout ratio. Regular dividends per share totalled $1.20 in 2005.

MESSAGE TO OUR SHAREHOLDERS

We are pleased with our performance in 2005. We grew our business, strengthened our balance sheet, and generated solid improvements in all of our operating metrics. More importantly, 2005 was another year in which the expertise of our people and their hard work, combined with the disciplined execution of our growth strategies, resulted in significant benefits for our shareholders.

Over the last few years we have accomplished a great deal in what continues to be a very challenging marketplace. In the real estate business, it is not an easy task to produce solid and accretive growth while at the same time maintaining a conservative financial position.

So, was 2005 just another good year, or are we doing the right things that will allow us to continue to grow and increase the value of our company going forward?

Our business is not very glamorous. We don't own a two million square foot regional mall, a beautiful office tower in a prime downtown location, or a famous hotel in a ski resort surrounded by picture perfect mountains. We own, develop and operate over 137 (and growing) neighbourhood and community shopping centres that cater to the everyday lives of people who live within a few short kilometres from our properties.

Our shopping centres average about 125,000 square feet in size, but each one of them plays a significant part in the life of its surrounding community. They serve different demographics, different density characteristics, and also serve people of different ages, genders, cultures and backgrounds. Our job, and it's not an easy one, is to make every customer feel welcome when they come to our shopping centres to get their groceries, visit their pharmacist or the bank, get a haircut, or bring their child to get a filling at the dentist's office.

At the same time, our retail tenants operate in an extremely competitive environment, which results in a natural cap on the rents they can afford to pay. They constantly want more attractive buildings, more efficient parking lots, better access and more visible signage. In short, our tenants want the world from us, they deserve it, and they offer very little to pay for it.

left to right:

SYLVIE LACHANCE
Executive Vice President

KAREN WEAVER
Chief Financial Officer and Secretary

BRIAN KOZAK
Vice President Western Canada

DORI SEGAL
President and Chief Executive Officer

The growth in our business comes from acquisition and development activities. For the properties we newly develop, although a complicated and lengthy process, it is a process we control and allows us to deliver a desirable product to our tenants with an attractive financial proposition. We pay a lot of attention to picking up well-located development sites so we end up with a favourable long-term return on our investment.

On the other hand, when we acquire existing shopping centres one at a time, although they are very well located, we inherit a whole other set of issues that are the result of the fragmented ownership in our business. These centres will often have tenants that operate from outdated buildings that have been starving for capital improvements. In these centres, tenants also have different lease agreements that are not standardized and often not drafted to our satisfaction in terms of tenant rights, exclusives and site plan issues.

With all of these challenges, you may well ask "Why are we in this business?"

The reason is quite simple. We believe all of these issues and problems present significant opportunity. The shopping centre business attracts us because it is going through a tremendous consolidation period, a time when we are busy translating experience and knowledge into quality and efficiencies, while consistently and gradually over time, "in a magical way", converting these problems into attractive returns on investment.

Putting this another way, our mission is to harvest the fertile ground of poorly managed shopping centres that have lacked capital investment for many years, obsolete empty buildings, undersized or oversized tenant space, short-term leases, high interest rate mortgages, low loan to value existing financing and tenants in bankruptcy.

To capitalize on these opportunities, our strategy remains simple – the powerful combination of focussed and disciplined acquisitions, proactive management and an in-house development business. Our approach is long term, our attitude is patient, and we don't look for short cuts. I recall someone once told me that there are no free lunches.

The bigger we get, the more challenges we face. At the same time, we see more opportunities come our way. Contrary to common belief, the bigger you are the easier it is to grow.

Focussed Acquisitions

At First Capital, it is second nature to us to follow three basic rules when making an acquisition – **location, location, location**. From the beginning, we realized that everyone on our team had to be a part of this strategy, starting with the property management group, through to leasing and even to our finance people. We all keep our eyes open and ears to the ground in every market, day in day out, for accretive acquisition opportunities, many of which are a very short distance from our exist-

ing properties. An acquisition opportunity could be half an acre at a cost of a few hundred thousand dollars for the completion of an expansion for an existing or new tenant, or the purchase of a fully operating shopping centre for more than $50 million. If an opportunity is well-located, if it can be used for retail, if it has a decent return, if it has a future potential to increase cash flow or it has a strategic value, we will buy it. If it doesn't meet these criteria, we will simply move on.

Proactive Management

Proactive management is also all about three things – people, people, people. To get a shopping centre updated to new retail formats while enhancing its returns, you need good ideas, excellent execution and a strong financial backbone. The combination of these three skills is crucial as all of these activities happen while tenants and their customers continue to do business and live their lives. Sensitive municipal issues also have to be patiently dealt with given the fact they concern the day-to-day life of the community surrounding the shopping centre. In this respect our work is never done. Once you have transformed a shopping centre to your desired standard, you then have to work hard to maintain it at that level with ongoing improvements. Proactive management, therefore, is not all about real estate, it's about people who are the stakeholders in the shopping centre.

Development

Being a good developer in the shopping centre business is not an option, it's a must. While development typically generates higher returns on capital invested, although with a slightly higher risk, it also allows us to participate in growth markets, provides the engine of growth for our tenants, and reduces the average age of our portfolio. In the past few years, with less than 5% of our balance sheet tied up in development assets, these development activities have delivered over 20% of our NOI growth. Successful development is the combination of three things – location, people and vision.

A Strong Financial Position

To cement the powerful combination of our three-pronged real estate strategy, over the last few years we made sure that our financial structure is conservative, transparent and simple. This resulted, among other things, in an investment grade credit rating from DBRS last year. We are now in the strongest financial position we have ever been, and we intend to continue on this path.

In summary and to answer my question on whether we are doing the right things, my conclusion is – yes we are. Going forward we will work hard to continue increasing the value of "our First Capital" which is very dear to my heart.

Although we are not perfect yet, every area of our business has

undergone tremendous improvements in the last few years. We are fortunate to have talented people who are very passionate about what they do and who also possess a high level and diversified set of skills which makes First Capital what it is today.

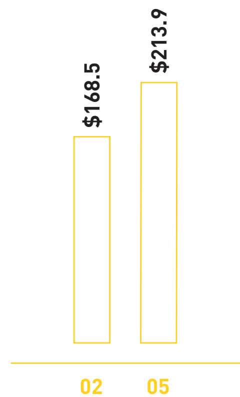
To these people, my fellow co-workers, I would like to express my appreciation first and foremost. In addition, I would like to thank our tenants and service providers for their support, our investors for their continued trust, and also our Board of Directors under the leadership of our Chairman, Chaim Katzman, for their counsel and guidance.

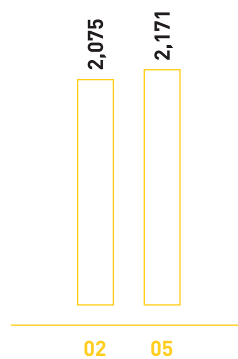
We will continue to focus and work hard to achieve our long-term objectives, and I believe we are well positioned to further increase value for our shareholders, tenants and business partners for a very long time to come.

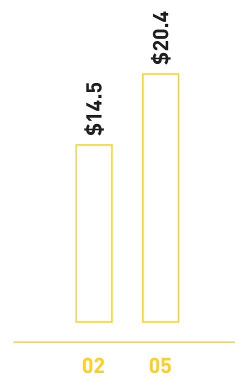
Dori J. Segal
President and Chief Executive Officer
April 6, 2006

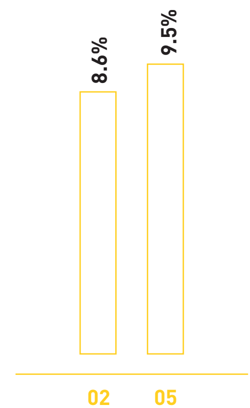
GROWING CASH FLOW

The following summary of our 2002 income property acquisitions demonstrates the effective execution of our focussed acquisitions and proactive management activities.









PROPERTY ACTIVITY SUMMARY

The following table highlights property improvements and activities since acquisition in 2002.

Property	Acquired Adjacent Site/Space	Expanded Centre	Renovated All/Part of Centre	New Anchor or Major Tenant	Expanded Space and Term of Anchor Tenant(s)
Byron Village Shopping Centre			✔		
Carrefour St. Hubert	✔	✔			
Centre Commercial Beaconsfield		✔			✔
Centre Commercial Cote St. Luc			✔		✔
Centre Commercial Van Horne			✔		✔
Centre Commercial Wilderton		✔	✔	✔	✔
Centre Domaine	✔		✔		✔
Galeries Brien	✔	✔	✔		✔
Galeries Normandie	✔	✔	✔	✔	✔
Midland Lawrence Plaza		✔	✔	✔	✔
Place Fleury			✔		✔
Place Pointe-aux-Trembles	✔	✔	✔	✔	✔
Place Vilamont			✔		✔
Plaza Delson	✔	✔	✔	✔	✔
Place Viau	✔				
Toys 'R' Us/Pier 1 Imports		✔		✔	
Village des Valeurs					
Westney Heights Plaza		✔	✔	✔	

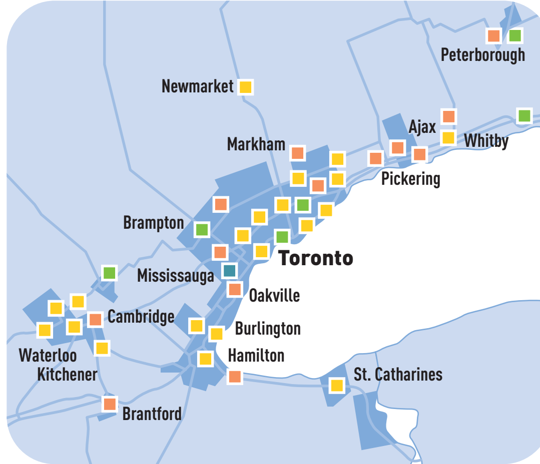
LOCATION LOCATION LOCATION

Centre Commercial Wilderton, Montreal, Quebec

- *Acquired January 2002*
- *Population – 1 mile >60,000 residents*
- *Major tenants*
  - *Metro*
  - *Pharmaprix*
  - *Royal Bank*
  - *SAQ Liquor Store*
  - *Dollarama*
  - *Femme Fitness*
- *At acquisition:*
  - *124,000 square feet*
  - *67.8% occupancy*
  - *$9.79 average lease rate*
- *At December 2005:*
  - *127,000 square feet*
  - *94.7% occupancy*
  - *$12.67 average lease rate*
- *Relocated, expanded, and extended leases of Pharmaprix and SAQ*
- *Opened a new fitness centre*
- *Renovated building facade and second floor and repaired the roof*

FOCUSSED ON MAJOR URBAN MARKETS

We target urban markets despite, and because of, their high barriers to entry. The advantage of urban retail properties is that if well-located and properly managed they typically generate sustainable returns on investments, and over time, capital appreciation.

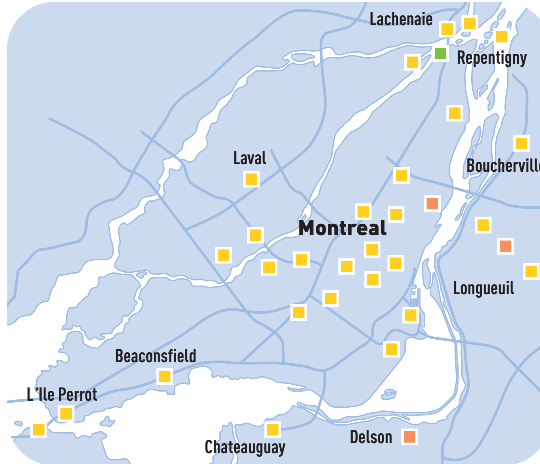


Greater Toronto Area 2000

- *14 properties*
- *2,500,000 square feet*

Greater Toronto Area 2006

- *39 properties*
- *5,400,000 square feet*

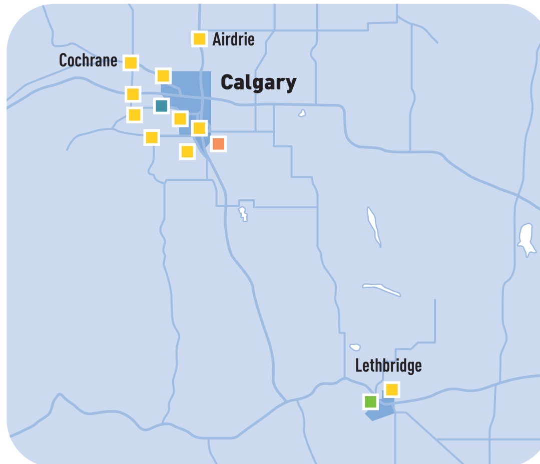


Greater Montreal Area 2000

- *4 properties*
- *300,000 square feet*

Greater Montreal Area 2006

- *32 properties*
- *3,200,000 square feet*



Calgary/Lethbridge 2000

- *2 properties*
- *150,000 square feet*

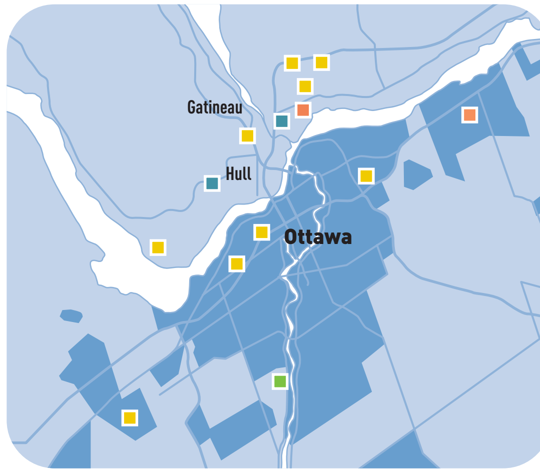
Calgary/Lethbridge 2006

- *12 properties*
- *1,400,000 square feet*

Legend

Stabilized properties
Under development/expansion
Expansion/development potential
Development sites

As at March 2006

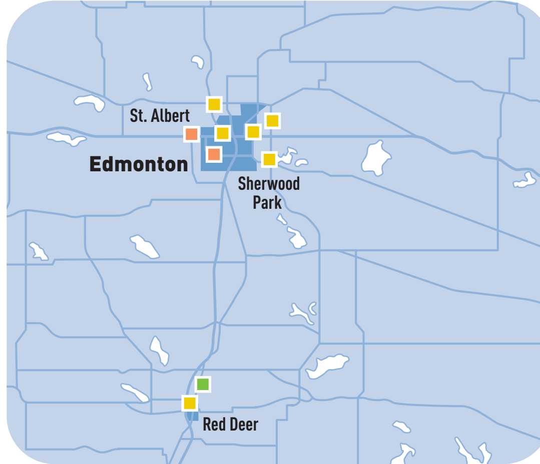


Ottawa/Hull 2000

- *3 properties*
- *300,000 square feet*

Ottawa/Hull 2006

- *12 properties*
- *1,500,000 square feet*



Edmonton/Red Deer 2000

- *8 properties*
- *1,500,000 square feet*

Edmonton/Red Deer 2006

- *9 properties*
- *1,600,000 square feet*

Greater Vancouver Area 2000

- *0 properties*
- *0 square feet*

Greater Vancouver Area 2006

- *11 properties*
- *1,200,000 square feet*

Quebec City 2000

- *0 properties*
- *0 square feet*

Quebec City 2006

- *4 properties*
- *300,000 square feet*

First Capital Realty Acquisitions:

INCREASING OUR PORTFOLIO

We continued our acquisition activities across our target urban markets in 2005, investing approximately $493 million in 25 shopping centres that added 2.4 million square feet of gross leasable area to our portfolio, additional space and land parcels totalling 27.5 acres at 11 existing properties, 76,000 square feet of additional space at four others, and the remaining 50% interest at an existing centre. We also acquired six development sites totalling 115.1 acres.

This portfolio growth was accomplished through the completion of 46 separate transactions during the year, almost one per week. This was a significant amount of activity considering that each opportunity undergoes careful scrutiny and due diligence to ensure every property meets our acquisition criteria and provides an appropriate long-term return on investment.

Our acquisition activity in 2005 strengthened our presence in most of our target urban markets and enhanced the overall geographic diversification of our portfolio. In particular, our asset base in Western Canada grew to over $600 million or 27% of our total annual minimum rent in 2005, up from 23% last year.

We take a highly disciplined approach to increasing the size and scale 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.

PORTFOLIO GROWTH *through* ACQUISITIONS *in* URBAN MARKETS

We acquired 25 neighbourhood and community shopping centres in 2005, all of which are anchored by a major supermarket and/or drug store chain. We strengthened our presence in the markets we operate in, and enhanced the geographic diversification of our portfolio. With our Q1 2006 acquisitions, our total portfolio now consists of 137 properties amounting to over 16.3 million square feet of GLA.

TOTAL INVESTMENT IN PROPERTIES *($ millions)*

	Acquisitions	Development and Capital Improvements	Total
2005			
Ontario	$ 212	$ 55	$ 267
Quebec	59	22	81
British Columbia	161	1	162
Alberta	61	19	80
	$ 493	$ 97	$ 590
2004			
Ontario	$ 113	$ 49	$ 162
Quebec	93	23	116
British Columbia	78	—	78
Alberta	6	19	25
	$ 290	$ 91	$ 381

First Capital Realty Development:

DEVELOPING OUR OPPORTUNITIES

Our development and redevelopment expertise adds significant value to the Company and is key to the long-term success of our business. These activities deliver a higher return on investment and allow First Capital Realty to better participate in growth markets and enhance our relationships with our tenants.

For the year ended December 31, 2005, we brought on-line over 339,000 square feet of new gross leasable area at 19 properties throughout the portfolio. During the year we also invested $97 million in our ongoing development and redevelopment projects, including improvements to our existing shopping centre portfolio. We believe we invest more in our properties than most other landlords, ensuring our portfolio remains attractive to quality retailers and their customers, and enhancing our long-term competitive position.

Development activity in 2005 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 professionals across the country.

At year end, we had six projects under development and more than 15 others under various planning, expansion and redevelopment stages. Our inventory of land assets and development projects totalled 238 acres at December 31, 2005, with the potential to add approximately 2.9 million square feet of GLA to the portfolio, about one-third of which we currently plan to complete by the end of 2007. This extensive pipeline of development opportunities provides First Capital with significant organic growth despite the competitive acquisition market for shopping centres.

DEVELOPMENT— the way to PARTICIPATE in GROWTH MARKETS

We invested $97 million in our development, redevelopment and improvement activities in 2005, and added 339,000 square feet of brand new, high quality and modern retail space to our growing portfolio. During the year we also invested $61 million in new land sites and land parcels adjacent to existing centres. Our current inventory of land assets and development projects will continue to provide us with growth and higher returns on invested capital.

2005 DEVELOPMENTS

Property Name	Location	Gross Leasable Area	Major Anchors
Royal Oak	Calgary, AB	61,000 sq. ft.	Home Outfitters, Mexx, Royal Bank
Tillsonburg Town Centre	Tillsonburg, ON	60,000 sq. ft.	Canadian Tire
Strandherd Crossing	Ottawa, ON	50,000 sq. ft.	Shoppers Drug Mart, Royal Bank
Sherwood Towne Square	Edmonton, AB	30,000 sq. ft.	Michael's, Royal Bank
Red Deer Village	Red Deer, AB	22,000 sq. ft.	Shoppers Drug Mart, Rogers Video
3434 Lawrence	Toronto, ON	17,000 sq. ft.	Mark's Work Wearhouse
Place Bordeaux	Gatineau, QC	16,000 sq. ft.	Marche Frais, Cuisine De La Mer Lapointe
Les Galeries de Lanaudiere	Lachenaie, QC	14,000 sq. ft.	Tommy Hilfiger, TD Canada Trust
Wellington Corners	London, ON	13,000 sq. ft.	Montana's
Harwood Plaza	Ajax, ON	10,000 sq. ft.	The Bargain Shop
Other pads and expansions		46,000 sq. ft.	
Total		339,000 sq. ft.	

First Capital Realty Proactive Management:

MANAGING OUR PROPERTIES

Our property management and leasing activities have generated tangible benefits for First Capital as well as our tenants and their customers. Over the last three years the combination of improving portfolio occupancy and higher average rents has resulted in steady and increasing same property net operating income. In 2005, same property NOI grew 2.6% while occupancy for the total portfolio improved to 95.0% at the end of 2005 from 94.1% at the beginning of the year. These increases are further demonstrations of the strength and quality of our property portfolio.

Another key element of our success is our leasing activity and our strong relationships with national, regional and local tenants. During 2005, leasing activities resulted in net new leasing totalling 490,000 square feet, including development coming on-line and renewal leasing of 594,000 square feet completed at a 4.9% increase over the expiring rental rates.

First Capital has proven its ability to add value to its properties through proactive 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, landscape and access points. Knowledgeable and sophisticated retailers seek to position themselves in the best located, best operated and most visible and accessible locations. Our proactive management approach ensures our properties remain attractive to these quality retailers and their customers over the long term.

QUALITY PROPERTIES attract QUALITY RETAILERS

Our proactive property management and leasing activities in 2005 generated a solid improvement in occupancy to 95% and increased average rents by 3.3% to $13.61 per square foot, resulting in growth in same property net operating income of 2.6%. With our ongoing development activities, property expansions and our focus on constantly improving and updating our centres, we will continue to work on improving these operating metrics.

TOP 30 TENANTS

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

FINANCIAL STRENGTH

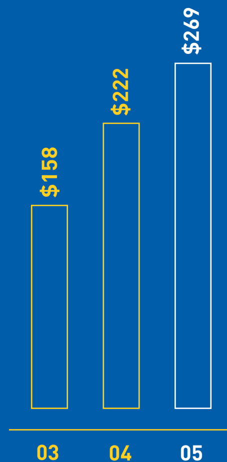
47% of total annual rents are from tenants with investment grade credit ratings

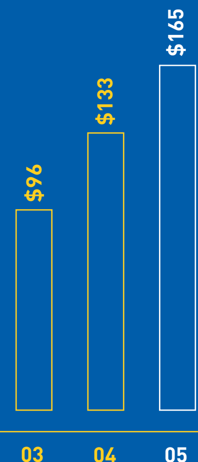
Operating Highlights

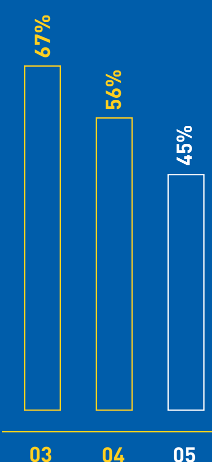
- Revenue increased 21% to $268.6 million
- Net operating income increased 24% to $165 million
- Invested $590 million in acquisitions, development activities and property improvements
- Added 2.7 million square feet of gross leasable area
- Funds from operations increased 46% to $94.7 million
- FFO per diluted share increased 4% to $1.48
- Average rent per occupied square foot grew 3.3% to $13.61

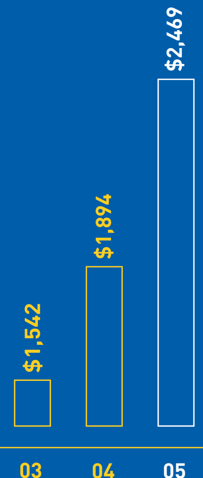
Sustainable Cash Flow

- 124 of 137 properties are supermarket and/or drug store-anchored
- Top 30 tenants provide 56.5% of annual rents, 77% of which are backed by investment grade credit ratings
- Occupancy has increased from 94.1% to 95%
- Same property net operating income increased 2.6%
- Debt to market capitalization improved to 44.7% from 56.4%
- Debt to gross total assets improved to 53.8% from 64.1%









MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2005 and 2004 and the accompanying notes. Additional information about the Company, including the Annual Information Form is on SEDAR at www.sedar.com. The information in this MD&A is based on information available to management as of March 10, 2006.

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 MD&A.

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 10, 2006.

The accounting principles that the financial data has been prepared in accordance with is Canadian Generally Accepted Accounting Principles ("GAAP") and all amounts are in Canadian dollars, unless otherwise noted.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty Inc. (TSX:FCR) is Canada's leading owner, developer and operator of supermarket-anchored neighbourhood and community shopping centres located predominantly in growing metropolitan areas. 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 was incorporated in November 1993 and conducts its business directly and through subsidiaries.

First Capital Realty's primary objective is the creation of value over the long term by generating sustainable cash flow and capital appreciation of its shopping centre portfolio. This

objective is achieved through a focussed and disciplined acquisition strategy, by undertaking selective development and redevelopment activities and by proactive management of the existing shopping centre portfolio.

The Company's portfolio of income-producing shopping centres at December 31, 2005 consisted of interests in 15.7 million square feet of gross leasable area in 133 properties including six under development, 123 of which were supermarket and/or drug store-anchored. These shopping centres average 122,000 square feet in size (2004 – 125,000 square feet) and have an average net book value of $128 per square foot (2004 – $125 per square foot). The Company operates in key urban markets in the four largest provincial economies in Canada as summarized in the following chart:

December 31			**2005**			2004
	Percent Occupied	**Number of Properties[1]**	**Gross Leasable Area (000s sq. ft.)**	Percent Occupied	Number of Properties	Gross Leasable Area (000s sq. ft.)
Ontario	**95.7%**	**53**	**7,275**	94.4%	43	6,086
Quebec	**94.2%**	**47**	**4,388**	94.5%	40	4,064
Alberta	**93.9%**	**18**	**2,688**	92.2%	14	2,218
British Columbia	**96.6%**	**11**	**1,174**	96.5%	3	472
Other	**90.2%**	**4**	**187**	88.9%	4	184
Total	**95.0%**	**133**	**15,712**	94.1%	104	13,024

(1) Includes four properties currently under development with no GLA.

The Company targets specific urban markets with stable and/or growing populations despite, and because of, the high barriers to entry. The Company intends to continue to operate primarily in and around growing urban markets including Toronto, Montreal, Calgary, Vancouver, Ottawa, Edmonton and Quebec City. 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 generate economies of scale and operating synergies.

The Company targets well-located properties that management expects will attract quality tenants with long lease terms. These quality tenants provide consumers with daily necessities including both products and services. In management's view, such tenants are somewhat less sensitive to economic cycles due to the high component of consumer non-discretionary spending for such products and services and are desirable tenants for the Company's type of properties. One measure of the quality of tenants is their credit-worthiness. At December 31, 2005, the Company's top 30 tenants represented 56.5% of the Company's annualized minimum rents and 58.3% of the gross leasable area in the Company's portfolio. A total of 77% of those rents are from tenants who have investment grade credit ratings and who represent many of Canada's leading supermarket operators, drug store chains, discount retailers, banks and other familiar shopping destinations. Furthermore, 47% of total annualized minimum rents are from tenants who have investment grade credit ratings.

The Company intends to grow through acquisitions, selective development and proactive management of the portfolio. Acquisitions increase the size and enhance the quality of the portfolio. Management seeks to acquire well-located neighbourhood and community shopping

centres in the Company's target urban markets that it believes will provide an appropriate return on investment over the long term. In addition to one-off property transactions, 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 2005, the Company acquired interests in 25 properties (2004 – 21 properties) which are consistent with the Company's investment and growth strategies. Through these acquisitions, the Company expanded its presence in its target urban markets in Canada and thus continues to generate greater 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 achieve a better 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 2005, the Company completed the development of 339,000 square feet of gross leasable area of which 328,000 square feet was occupied (2004 – 550,000 square feet of which 512,000 square feet was occupied). First Capital Realty 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 proactive management of the existing portfolio as an important part of its strategy. Proactive management encompasses continued investment in properties to ensure they remain attractive to quality retail tenants and their customers over the long term. Specifically, management strives to create and maintain the highest standards in lighting, parking, access and general appearance of our properties. The Company's proactive management strategies have contributed to continued improvement in occupancy levels and average lease rates throughout the portfolio.

During 2005, the Company completed the full internalization of its development, leasing, legal, construction management and tenant co-ordination functions, thereby internalizing all important value creation activities. These capabilities are located in each of the Company's offices in Toronto, Montreal and Calgary in order to effectively serve the major urban markets where First Capital Realty operates.

Our property management joint venture, FCB, a retail tenant services partnership of First Capital Realty and Brookfield LePage Johnson Controls Facility Management Services "BLJC" provides basic property management services to our properties. Effective with the implementation of this joint venture on April 1, 2005, First Capital Realty terminated its third-party property management agreement. This change in the delivery of property management services has positively impacted the quality of service the Company's tenants receive, and over time may result in a more efficient cost structure for our tenants. First Capital Realty owns a 60% economic interest in FCB and jointly controls FCB along with BLJC.

The full internalization of the value creation activities and property management services also has resulted in First Capital Realty being able to leverage all of its knowledge and expertise

within the Company, which will provide a higher ability to deliver on strategic plans and foster stronger relationships with key outside stakeholders in the acquisition, development and tenant communities.

The Company also owns 13.3 million shares (2004 – 12.7 million shares) or approximately 17.8% (2004 – 17.5%) of Equity One, Inc., the assets of which are similar to those of the Company, and at December 31, 2005 comprised 192 properties totalling 19.7 million square feet (December 31, 2004 – 188 properties totalling 19.9 million square feet). At December 31, 2005, the Company had interests in 325 properties totalling approximately 35.4 million square feet of gross leasable area which include properties held through its investment in Equity One (December 31, 2004 – 292 properties totalling 32.9 million square feet).

Company Key Performance Measures

There are many factors that contribute to the successful operations of First Capital Realty's 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 Company quantifies the collective results of these factors into the two key measures: funds from operations per diluted share and the overall leverage level.

Funds from Operations per Diluted Share

A key objective is to generate absolute and accretive growth as measured by funds from operations per diluted share through execution of the business strategy.

Overall Leverage Level

Another important objective is to continue to maintain financial discipline and ensure sustainability of cash flows through our debt to total market capitalization ratio which is targetted to range from 45% to 60%, subject to market conditions and opportunities and taking into consideration the total asset value of the Company.

2005 Performance Compared to Objectives

The Company's objectives for 2005 were to:

- Increase the size of the Company's income-producing portfolio while maintaining and enhancing asset quality; and,
- Increase the funds from operations through increased rental rates and portfolio occupancy, expansion and development activities.

The Company believes it has met or exceeded all of its 2005 objectives. Key financial and operating metrics which provide measures of performance are outlined on the Summary Consolidated Information and Highlights table:

Summary Consolidated Information and Highlights

(thousands of dollars, except per share amounts)	**2005**	2004 [1] [2]	2003 [1] [2]
Operation Information			
Gross leasable area (sq. ft.)	**15,712,000**	13,024,000	10,708,000
Number of properties	**133**[3]	104	82
Development land acreage owned	**238**	139	89
Portfolio occupancy	**95.0%**	94.1%	93.1%
Rate per occupied square foot	**$ 13.61**	$ 13.17	$ 12.66
Financial Information			
Gross real property investments	**$ 2,274,818**	$ 1,685,277	$ 1,306,888
Total real estate investments	**$ 2,392,270**	$ 1,831,717	$ 1,496,133
Total assets	**$ 2,469,288**	$ 1,893,597	$ 1,541,580
Mortgages, credit facilities and debentures payable	**$ 1,397,040**	$ 1,002,965	$ 786,301
Convertible debentures payable	**$ 96,990**	$ 247,736	$ 335,656
Shareholders' equity	**$ 842,544**	$ 548,493	$ 349,672
Net operating income – Canada [4]	**$ 165,049**	$ 132,818	$ 96,201
Net income	**$ 29,196**	$ 17,887	$ 22,149
Net income per share	**$ 0.72**	$ 0.46	$ 0.91
Net income per diluted share	**$ 0.50**	$ 0.45	$ 0.86
Equity One			
Dividends received from Equity One (Cdn$)	**$ 18,221**	$ 18,671	$ 19,033
US$ Dividends from Equity One	**15,207**	14,249	13,001
US$ average exchange on dividends	**1.20**	1.31	1.46
Debt to market capitalization [5]	**44.7%**	56.4%	67.2%
Debt to gross total assets [5]	**53.8%**	64.1%	72.2%
Dividends per common share			
– regular	**$ 1.20**	$ 1.17	$ 1.14
– special	**$ 0.20**	$ —	$ —
Dividends	**$ 87,617**	$ 54,771	$ 30,507
Dividends reinvested by shareholders [6]	**$ 45,200**	$ —	$ —
Funds from Operations			
Funds from operations [7]	**$ 94,666**	$ 64,664	
Funds from operations per diluted share	**$ 1.48**	$ 1.42	
Weighted average diluted shares – FFO	**63,995,995**	45,652,868	

(1) Refer to the 2005 MD&A for discussion and analysis relating to the two years ended December 31, 2005 and 2004 and to the 2004 MD&A for discussion and analysis for the two years ended December 31, 2004 and 2003.

(2) Comparative figures have been restated to reflect the change in accounting standards with respect to convertible debentures which is further described in the notes to the 2005 consolidated financial statements.

(3) Includes four properties currently under development with no GLA.

(4) Net operating income is a non Generally Accepted Accounting Principles ("GAAP") measure of operating performance. See definition on page 32.

(5) Calculated in accordance with the Series A unsecured debenture indenture.

(6) Includes $16 million of dividends payable at December 31, 2005 that were reinvested in January 2006.

(7) Funds from operations is a measure of operating performance that is not defined by GAAP. See page 31 for an explanation and reconciliation of funds from operations to net income. The definition of funds from operations changed effective January 1, 2004.

Summary Consolidated Information Highlights

- Gross real property investments increased by 35% over 2004
- The leverage of the Company as measured by debt to total market capitalization improved to 44.7% at December 31, 2005 from 56.4% at December 31, 2004
- Net operating income increased by 24% over 2004
- Funds from operations per diluted share increased by 4% over 2004
- Regular dividends increased to $1.20 per share compared to $1.17 per share in 2004

OPERATIONS

Investments in Real Estate

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

($ millions)	**2005**	2004
Gross real property investments, January 1	**$ 1,685**	$ 1,307
Acquisition of income-producing properties	**407**	262
Acquisition of additional space and land parcels adjacent to existing properties	**36**	11
Acquisition of land sites for development	**37**	17
Active development and portfolio improvement	**97**	91
Other	**13**	(3)
Gross real property investments, December 31	**$ 2,275**	$ 1,685

The Company's operations are comprised of acquisitions of income-producing properties, acquisitions of additional space and land parcels at or adjacent to existing income properties, acquisitions of land sites for future development, development of square footage at our centres and leasing of income-producing properties and properties under development. These operations for 2005 and 2004, along with the Company's interest in Equity One are discussed below.

Income-Producing Properties

In 2005, the Company acquired interests in 25 income-producing shopping centres, comprising 2.4 million square feet, for $401.9 million compared with the acquisition of 21 income-producing shopping centres, comprising 1.9 million square feet for $262 million in 2004. Of these properties, 19 were anchored by supermarkets and three were anchored by drug stores. In addition, nine of the supermarket-anchored centres also included drug stores as additional anchors. These acquisitions are in and around the Company's targetted urban markets and demonstrate the Company's continuing focus on these urban markets. The acquisitions are summarized in the following table.

Property Name	City	Province	Supermarket-Anchored	Drug Store-Anchored	Gross Leasable Area *(square feet)*	Acquisition Cost *($ millions)*
Grimsby Square Shopping Centre	Grimsby	ON	✔	✔	126,000	$ 13.1
Hooper Building	Sherbrooke	QC	✔	✔	92,000	11.4
Pemberton Plaza	Vancouver	BC	✔	—	78,000	19.1
Kingsland Plaza	Calgary	AB	—	✔	45,000	9.0
Broadmoor Shopping Centre	Richmond	BC	✔	—	43,000	14.5
Adelaide Shoppers	London	ON	—	✔	19,000	5.6
Towerlane Mall	Airdrie	AB	✔	✔	170,000	20.1
Fairway Plaza	Kitchener	ON	✔	—	169,000	40.5
Langley Mall	Langley	BC	✔	—	132,000	13.6
Harbour Front Centre	Vancouver	BC	—	—	127,000	34.3
Place Michelet	Montreal	QC	✔	—	59,000	13.5
1331 Main Street	Vancouver	BC	—	—	55,000	5.7
Uplands Common	Lethbridge	AB	✔	—	53,000	11.1
Carrefour des Forges	Drummondville	QC	✔	—	50,000	7.3
College Square [1]	Ottawa	ON	✔	✔	388,000	39.3
Langley Crossing	Langley	BC	—	—	129,000	29.1
Bowmanville Mall	Bowmanville	ON	✔	✔	115,000	13.6
Chartwell Shopping Centre	Toronto	ON	✔	✔	85,000	19.0
Terra Nova Shopping Centre	Richmond	BC	✔	—	73,000	24.7
Galeries des Chesnaye	Lachenaie	QC	✔	✔	57,000	7.1
Burlingwood Shopping Centre	Burlington	ON	✔	✔	46,000	9.5
Coronation Mall	Duncan	BC	✔	—	58,000	11.1
Loblaws Plaza	Ottawa	ON	✔	—	106,000	15.9
Lakeview Plaza	Calgary	AB	✔	✔	64,000	11.1
Verdun Shoppers	Montreal	QC	—	✔	19,000	2.7
Total			19	12	2,358,000	$ 401.9

(1) 50% interest

In addition, the Company acquired the remaining 50% interest in Northfield Centre, Waterloo, Ontario for $5.2 million.

Additional Space and Adjacent Land Parcels

In 2005 the Company acquired additional space in four existing shopping centres and 11 land parcels at or adjacent to existing properties adding 76,000 square feet of gross leasable area and 27.5 acres of commercial land. Total expenditures on these additional interests and land parcels amounted to $36.2 million. These acquisitions are set out in the following table.

Property Name	City	Province	Acres	Gross Leasable Area *(square feet)*	Acquisition Cost *($ millions)*
Promenades Lévis	Lévis	QC	3.5	—	$ 2.4
Brantford Mall	Brantford	ON	0.3	—	0.3
Steeple Hill Shopping Centre	Pickering	ON	0.3	—	0.2
Towerlane Mall	Airdrie	AB	—	38,000	4.0
Pemberton Plaza	Vancouver	BC	—	8,000	3.4
Carrefour des Forges	Drummondville	QC	1.0	—	0.4
Grimsby Square Shopping Centre	Grimsby	ON	0.2	—	0.4
1071 King Street West	Toronto	ON	—	27,000	3.8
University Mall	Windsor	ON	9.5	—	1.6
Plaza Delson	Delson	QC	1.0	—	0.4
Chartwell Shopping Centre	Toronto	ON	3.9	—	4.9
Carrefour St-David [1]	Quebec City	QC	6.2	—	2.6
King Liberty Village	Toronto	ON	1.0	—	9.8
Grimsby Square Shopping Centre	Grimsby	ON	0.6	—	1.1
Place Seigneuriale (La Belle Province)	Quebec City	QC	—	3,000	0.9
Total			27.5	76,000	$ 36.2

(1) To be combined with Carrefour St-David land development site in table below.

Land Sites for Development

The Company also invested $36.7 million in the acquisition of six land sites comprising 115.1 acres of commercial land for future development as set out in the table below.

Property Name	City	Province	Acres	Acquisition Cost *($ millions)*
North Oakville Land	Oakville	ON	7.7	$ 7.0
Morningside Crossing	Toronto	ON	13.4	13.0
Carrefour du Plateau-Grives[2]	Hull	QC	32.9	6.7
Bow Valley Crossing [1][2]	Calgary	AB	48.4	4.4
Carrefour St-David	Quebec City	QC	10.5	4.0
Jericho Centre	Langley	BC	2.2	1.6
Total			115.1	$ 36.7

(1) 50% interest

(2) Acquired prior to zoning process

Impact of 2005 Acquisitions on Continuing Operations

Management takes a highly disciplined approach to increasing the size and scale of the Company's property portfolio. Management seeks acquisitions that are both operationally and financially accretive to the Company over the long term, also looking for benefits from economies of scale and operating synergies and strengthening of the Company's competitive position in its target urban markets. As well, the Company also looks to enhance the geographic diversification of the portfolio.

Management believes that the 2005 acquisitions are in-line with the business strategy and will support achievement of the Company's objectives.

2004 Acquisitions

In 2004, First Capital Realty expanded its portfolio through various acquisitions as set out below.

Income-Producing Properties

The Company acquired interests in 21 income-producing shopping centres, comprising 1.9 million square feet for $262 million. Of these properties, 19 were anchored by supermarkets and two were anchored by drug stores. Nine of the supermarket-anchored centres also included drug stores as additional anchors. These acquisitions are in and around our targetted urban markets and demonstrate the Company's focus on these urban markets, including our initial acquisitions in Vancouver and Quebec City, two 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)*
West Oaks Mall[1]	Abbotsford	BC	✔	✔	270,000	$ 29.8
Appleby Mall	Burlington	ON	✔	✔	173,000	26.5
Scott 72 Centre	Delta	BC	—	✔	163,000	34.6
Promenades Lévis	Lévis	QC	✔	—	141,000	4.1
Carrefour Soumande	Quebec City	QC	✔ [2]	—	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) 50% interest

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

Additional Interests and Adjacent Land Parcels

The Company acquired an additional interest in an existing shopping centre and six land parcels at or adjacent to existing properties for expansion. Total expenditures on these additional interests and land parcels amounted to $10.8 million for 16,000 square feet of retail space and 8.6 acres of commercial land for future development.

Property Name	City	Province	Acres	Gross Leasable Area *(square feet)*	Acquisition Cost *($ millions)*
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 Village	Toronto	ON	1.0	—	3.2
Maple Grove Village	Oakville	ON	1.0	—	0.9
Carrefour St. Hubert	Longueuil	QC	0.5	—	0.9
Total			8.6	16,000	$ 10.8

2004 Land Sites for Development

The Company also invested $17.2 million in the acquisition of six land sites comprising 54.3 acres of commercial land for future development as set out below.

Property Name	City	Province	Acres	Acquisition Cost *($ millions)*
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			54.3	$ 17.2

2005 Development Activities

Development is completed on a selective basis based on opportunities in the markets where the Company operates. Development activities are strategically managed to reduce risks and properties are developed after obtaining anchor lease commitments. In 2005, the Company developed 339,000 square feet of retail space in the following shopping centres:

Property Name	City	Province	Square Feet	Major Anchors
Royal Oak	Calgary	AB	61,000	Home Outfitters, Mexx, Royal Bank
Tillsonburg Town Centre	Tillsonburg	ON	60,000	Canadian Tire
Strandherd Crossing	Ottawa	ON	50,000	Shoppers Drug Mart, Royal Bank
Sherwood Towne Square	Edmonton	AB	30,000	Michael's, Royal Bank
Red Deer Village	Red Deer	AB	22,000	Shoppers Drug Mart, Rogers Video
3434 Lawrence	Toronto	ON	17,000	Mark's Work Wearhouse
Place Bordeaux	Gatineau	QC	16,000	Marche Frais, Cuisine De La Mer Lapointe
Les Galeries de Lanaudiere	Lachenaie	QC	14,000	Tommy Hilfiger, TD Canada Trust
Wellington Corners	London	ON	13,000	Montana's
Harwood Plaza	Ajax	ON	10,000	The Bargain Shop
Other pads and expansions			46,000	
Total			339,000	

The 2005 development of 339,000 square feet compares with 550,000 square feet completed in 2004. Of the 339,000 square feet completed, 328,000 square feet is occupied at December 31, 2005 at an average rate of $18.33 per square foot. These successfully completed development projects illustrate the potential future value of investments in on-going development initiatives that are not yet generating income, but are expected to contribute significantly to the growth of the Company.

At December 31, 2005, the Company owned 238 acres of land sites and parcels available for future development compared with 139 acres in 2004. This inventory provides the Company with opportunities for growth throughout its existing portfolio.

	Number of Sites/Properties	Acres	Developable Square Feet
Properties under development	6	—	503,000
Square footage under development in existing properties	7	—	76,550
Land parcels adjacent to/part of existing properties	34	87	942,950
Land sites held for future development	10	151	1,429,000
Total	57	238	2,951,500

In 2005, the Company invested a total of $97 million in its active development projects as well as in certain improvements to its existing shopping centre portfolio.

In addition to the properties under development at December 31, 2005, the Company has a number of shopping centres under redevelopment or expansion. The expected costs of completing planned and approved projects, including tenant inducements, total approximately $72 million.

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

2004 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	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 was occupied at December 31, 2004 at an average rate of $16.97 per square foot.

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

	Number of Sites/Properties	Acres	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
	49	139	1,663,650

The Company invested a total of $91 million in its active development projects as well as in certain improvements to its existing shopping centre portfolio.

The Company also had a number of shopping centres under redevelopment or expansion at December 31, 2004. The costs to complete planned and approved projects including tenant inducements totalled approximately $40 million.

Leasing

In 2005, net new leasing, including new space coming on-line totalled 490,000 square feet compared to 599,000 square feet in 2004. This net new leasing will generate additional annual minimum rent of approximately $6.0 million as compared to $7.9 million in 2004. Lease renewals on 594,000 square feet were completed in 2005, as compared to 410,000 square feet of space in 2004. The 2005 renewals will generate additional annual minimum rent 4.9% greater than the expiring rent which compares to 2004 renewals of 2.4%.

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 $13.61 at December 31, 2005 as compared with $13.17 at December 31, 2004.

The occupancy level of the portfolio, including properties currently under redevelopment, was 95.0% of total gross leasable area as at December 31, 2005 as compared with 94.1% at December 31, 2004.

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

Equity One

Equity One is a United States Real Estate Investment Trust ("REIT") traded on the New York Stock Exchange ("NYSE") under the ticker symbol EQY, that 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, 2005, Equity One owned 192 properties (2004 –188 properties) totalling 19.7 million square feet (2004 – 19.9 million square feet) located primarily in metropolitan areas of 11 states (2004 – 12 states) in the southern United States and the Boston, Massachusetts area. The portfolio is comprised of 125 supermarket-anchored shopping centres (2004 – 133), seven drug store-anchored shopping centres (2004 – eight), 49 other retail anchored shopping centres (2004 – 40), six development parcels (2004 – four) and five non-retail properties (2004 – three) as well as a non-controlling interest in one unconsolidated joint venture.

The investment in Equity One provides the Company with both geographic and property rental revenue diversification in growing urban markets in the United States. Seventy-six percent of the total square footage owned by Equity One is located in Florida, Texas, and Georgia with the balance of the properties in nine other states. Additionally, all of Equity One's top ten tenants are represented by U.S.-based corporations that are distinct from the Company's top ten tenants.

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 $212 million and $359 million (2004 – $204 million and $364 million), respectively, at December 31, 2005, using the year-end exchange rate of $1.16 (2004 – $1.20). First Capital

Realty through its wholly-owned U.S. subsidiaries owned 13.3 million shares of Equity One as of December 31, 2005 (2004 – 12.7 million shares).

First Capital Realty's 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 additional investments in shares. At December 31, 2005, the Equity One shares had a market value of US$308 million or US$23.12 per share. Equity One has paid dividends for 31 consecutive quarters, providing the Company with a source of stable cash income. During 2005, First Capital Realty reinvested a portion of these dividends into additional stock purchases through the Equity One dividend reinvestment and stock purchase plan, and the Company may continue to undertake such reinvestments or additional purchases in the future. At December 31, 2005, the Company has leveraged its investment in Equity One with the majority of the shares held as security for US$133 million of debt.

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 stockholders 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. FFO: (i) does not represent cash flow from operating activities as defined by GAAP (ii) is not indicative of cash available to fund all liquidity requirements, including payment of dividends and capital for growth and (iii) should not be considered as an alternative to net income (which is determined in accordance with GAAP) for the purpose of evaluating operating performance.

(thousands of dollars)	**2005**	2004
Net income for the year	**$ 29,196**	$ 17,887
Add (deduct):		
Amortization of shopping centres, deferred costs and intangible assets	**47,816**	35,136
Gain on disposition of real estate and investments	**(202)**	(1,163)
Equity income from Equity One	**(17,475)**	(18,228)
Funds from operations from Equity One	**26,275**	25,923
Dilution gain on investment in Equity One	**—**	(3,201)
Future income taxes	**9,056**	8,310
Funds from operations	**$ 94,666**	$ 64,664

Funds from Operations – RealPac Recommendations

First Capital Realty calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("RealPac"), formerly known as the Canadian Institute of Public and Private Real Estate Companies ("CIPPREC"). The definition is meant to standardize the calculation and disclosure of FFO across real estate entities in Canada, and is modelled 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 was adopted by First Capital Realty on January 1, 2005 and applied retroactively.

Funds from Operations per Diluted Share

Funds from operations per diluted common share totalled $1.48 for the year ended December 31, 2005 compared to $1.42 in 2004. The increase in FFO per share was due primarily to growth in net operating income. The positive impacts from growth in net operating income were partially offset by a 40.2% 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

Net operating income is defined as a property rental revenue less property operating costs (see note 21 to the consolidated financial statements). In management's opinion, net operating income is useful in analyzing the operating performance of the Company's shopping centre portfolio. Net operating income is not a measure defined by GAAP and there is no standard definition of net operating income. Accordingly, net operating income may not be comparable with similar measures presented by other entities. Net operating income should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP.

(thousands of dollars)	**2005**	2004
Same property	**$ 101,821**	$ 99,280
2004 Acquisitions	**21,504**	12,832
2005 Acquisitions	**14,847**	—
Development and redevelopment	**21,581**	16,413
Straight-line rent	**2,985**	2,881
Market rent adjustments	**1,130**	289
Lease termination, sold properties and other non-recurring amounts	**1,181**	1,123
Net operating income	**$ 165,049**	$ 132,818

Net operating income ("NOI") represents non-GAAP information and may not be comparable to measures used by other issuers.

Net operating income increased in 2005 by $32 million to $165 million. Same property NOI (includes properties where the Company's ownership and investment are substantially the same in the two calendar years) grew by 2.6% or $2.5 million during the year.

Properties which were acquired during 2004 contributed an additional $21.5 million to NOI in 2005 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 2005 contributed $14.9 million to NOI, which contribution management expects will increase in 2006 when the properties will have been owned for a full year. NOI from properties which are currently or have undergone substantial development or redevelopment at some point during 2004 or 2005 was $21.6 million in 2005. This represents an increase of $5.2 million in NOI over 2004 due to development and redevelopment activities, net of temporary reductions in NOI while the properties were undergoing development.

In the normal course of operations the Company receives payments from tenants as compensation for the cancellation of leases. In 2005, the Company received lease cancellation

payments of $0.5 million or 0.2% of total property revenues as compared to $1.7 million or 0.8% of total property revenues in 2004. Lease termination income was lower in 2005 due partially to a one-time lease termination payment of $0.6 million received from a single tenant in 2004. Lease termination income has ranged from 0.3% to 2% of total property revenues over the past five years.

The ratio of net operating income to gross rental revenues in 2005 of 62.3% reflects the inclusion of straight-line rents, market rent adjustments, lease termination fees and non-recurring amounts of $5.3 million included in NOI. Excluding these items, the NOI margin is approximately 61.6%. Similarly, the 2004 ratio of net operating income to gross property revenues of 61.8% reflects the inclusion of lease termination fees, market rent adjustments and other non-recurring amounts of $4.3 million in NOI. Excluding these items, the NOI margin was approximately 61.0%. Overall, the NOI margin has been stable over the past three 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 GAAP.

Equity Income from Equity One

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 $0.8 million decrease in the equity income is primarily due to a decrease in Equity One's gains on property dispositions in 2005. As a result of the Company increasing the number of Equity One shares owned, and Equity One increasing its dividend rate during the year, the total dividends received by the Company on its investment in 2005 were US$15.2 million as compared to US$14.2 million in 2004.

Interest and Other Income

(thousands of dollars)	**2005**	2004
Interest and other income	**$ 2,551**	$ 6,409
Gain on disposition of property and securities	**291**	—
Dividend income on marketable securities	**960**	71
Total	**$ 3,802**	$ 6,480

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, other receivables and investments in marketable securities. The decline in interest and other income is due to the receipt of income in 2004 from certain high-yield cash flow participation loans, in which the Company had a non-recourse interest including approximately $2.7 million which was non-recurring. The participation loans and other related income and cash flow payment were substantially realized in 2004 and no longer contribute significantly to the Company's results.

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.

Interest Expense

(thousands of dollars)		2005		2004
Mortgages and credit facilities				
Secured by Canadian properties	**$**	**60,299**	$	47,482
Secured by investment in Equity One		**7,557**		4,980
		67,856		52,462
Debentures and convertible debentures		**12,476**		27,796
Total interest expense	**$**	**80,332**	$	80,258

The increase in interest expense on mortgages and credit facilities in 2005 was a result of an increase in the gross debt required to fund the growth of the property portfolio. This was largely offset by the redemption of the Company's convertible debentures during 2004 and 2005. While gross debt has increased, the Company's ratio of debt to gross total assets has declined from 64.1% at December 31, 2004 to 53.8% at December 31, 2005.

Interest Expense on Mortgages and Credit Facilities – Canada

(thousands of dollars)		2005		2004
Interest expense	**$**	**60,299**	$	47,482
Interest capitalized		**5,830**		4,499
Interest paid in excess of implicit interest on assumed mortgages		**1,710**		327
Total Canadian mortgage and credit facilities interest paid	**$**	**67,839**	$	52,308

The increase of $15.5 million in interest paid on Canadian mortgages and credit facilities in 2005 over 2004 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 6.8% at December 31, 2004 to 6.5% at December 31, 2005 as rates on new financings are lower than those on existing debt. The interest capitalized to properties under development in 2005 increased over 2004 as a result of increased development activity and investments.

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

(thousands of dollars)		2005		2004
Ending debt balance – December 31 (US$)	**$**	**132,941**	$	85,713
Interest expense (US$)	**$**	**6,261**	$	3,832
Average exchange rate	**$**	**1.21**	$	1.30
Interest expense (Cdn$)	**$**	**7,557**	$	4,980

Measured in U.S. currency, the interest expense on the U.S. facilities has increased by 63% in 2005 from 2004 as a result of the higher debt balance and a higher average interest rate. The change in the U.S. exchange rate during 2005 has partially offset this increase, resulting in a 52% 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)	**2005**	2004
Interest expense on convertible debentures	**$ 9,766**	$ 27,796
Interest expense on debentures	**2,710**	—
Total debenture interest expense	**12,476**	27,796
Implicit interest rate in excess of coupon on convertible debentures	**(1,438)**	(3,953)
Change in accrued interest	**1,984**	3,200
Less: interest paid in common shares of the Company	**(10,465)**	(19,137)
Cash interest paid	**$ 2,557**	$ 7,906

During 2005 and 2004, the Company redeemed all of its Series B, C, and D convertible debentures resulting in a significant decrease in interest expense from convertible debentures. On June 21, 2005, the Company issued $100 million of 5.08% senior unsecured debentures, maturing on June 21, 2012. Interest is payable semi-annually. On December 19, 2005, the Company issued $100 million of 5.5% convertible unsecured subordinated debentures due September 30, 2017. Interest is payable semi-annually on March 31 and September 30. In 2005, 543,547 (2004 – 1,177,143) common shares were issued to pay interest to holders of convertible debentures.

Corporate Expenses

(thousands of dollars)	**2005**	2004
Salaries, wages and benefits	**$ 10,626**	$ 6,380
Non-cash compensation	**1,532**	960
Other general and administrative costs	**5,954**	3,887
Capital taxes, net of recoveries from tenants	**1,442**	1,362
Capitalized expenses	**(5,182)**	(950)
Total corporate expenses	**$ 14,372**	$ 11,639

Total corporate expenses have increased to $14.4 million in 2005 from $11.6 million in 2004. Salaries, wages and benefits have increased as a result of portfolio growth and related staffing levels including the full internalization of development, leasing, legal, construction management and tenant co-ordination. In addition, corporate expenses include costs for all other real estate activities and for general corporate purposes and net capital taxes.

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 2005, the non-cash compensation 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 the regulatory environment for public companies. In addition, there was an increase in the net pre-acquisition costs incurred in the investigation of real estate assets which were ultimately not acquired by the Company.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development and initial leasing

of the properties, including salaries and related costs, are capitalized in accordance with GAAP, to land and shopping centres under development as incurred. Direct and incremental costs associated with internal leasing staff are capitalized to deferred leasing costs and amortized over the lives of the related leases. Amounts capitalized to real estate investments and deferred leasing costs during 2005 totalled $5.2 million, compared to $1.0 million in 2004. The increase in capitalized costs was due to the full internalization of these activities commencing in the fourth quarter of 2004 and subsequent operations during the full year in 2005.

Despite the factors which have increased these expenses in 2005, corporate expenses as a percentage of gross rental revenue have remained constant at 5.4%.

Amortization

(thousands of dollars)	**2005**	2004
Shopping centres	**$ 36,854**	$ 29,194
Tenant inducements and leasing fees	**8,467**	4,447
Intangible assets	**2,495**	1,495
Deferred financing fees	**2,096**	2,724
Other	**409**	196
Total amortization	**$ 50,321**	$ 38,056

Amortization of shopping centre properties increased to $37 million in 2005 from $29 million in 2004. The increase 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 increase is also due to acquisitions and new developments coming on-line.

Amortization of tenant inducements and leasing fees increased as a result of the growing portfolio. In addition to inducements incurred directly by the Company, changes to accounting for acquisitions in 2004 had 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 decrease in 2005 over 2004 is primarily due to the redemption of the convertible debentures during 2004 and 2005.

Income and Other Taxes

(thousands of dollars)	**2005**	2004
Canadian federal large corporations tax	**$ 1,631**	$ 2,150
United States current income taxes and other	**2,436**	2,656
Future income taxes	**9,056**	8,310
Total	**$ 13,123**	$ 13,116

The Company has estimated tax-loss carry-forwards for Canadian income tax purposes of approximately $42 million available to reduce future Canadian taxable income. The total income tax expense has decreased compared to 2004 due to one-time tax effects of the convertible debenture redemptions.

Net Income

(thousands of dollars)	2005	2004
Net income	**$ 29,196**	$ 17,887
Net income per diluted share	**$ 0.50**	$ 0.45

Net income for the year ended December 31, 2005 was $29.2 million, or $0.72 per basic share and $0.50 per diluted share, compared to $17.9 million, or $0.46 per basic share and $0.45 per diluted share, in 2004. The increase in net income results primarily from an increase in net operating income from properties due to acquisitions and development coming on-line, partially offset by increased amortization and corporate expenses. The effect on earnings per share of the increase in net income is partially offset by a 51% increase in diluted shares outstanding.

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, convertible debentures 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.

In May 2005, the Company received an investment grade credit rating from the Dominion Bond Rating Service Limited ("DBRS"). DBRS is a credit rating agency that provides ratings of debt securities for commercial entities. Credit ratings provide investors with an assessment of potential risk that borrowers will not fulfill their obligations with respect to both principal and interest payments. Ratings generally range from the highest credit quality (generally AAA) to very speculative (generally C). The credit rating provided to the Company was BBB (low) with a stable trend relating to the Series A unsecured debentures and is generally an indication of adequate credit quality as defined by DBRS.

(thousands of dollars)	**2005**	2004
Mortgages and credit facilities – Canada	**$ 1,142,430**	$ 899,939
Credit facilities – U.S.	**154,610**	103,026
Mortgages and credit facilities	**1,297,040**	1,002,965
Unsecured debentures payable	**100,000**	—
Convertible debentures payable	**96,990**	247,736
Equity component of convertible debentures	**3,015**	16,517
Other	**(5)**	(2,552)
Convertible debentures principal	**100,000**	261,701
Share capital	**1,022,701**	673,660
Warrants	**472**	711
Options and share units	**3,004**	1,273
Cumulative currency translation	**(14,577)**	(13,347)
Contributed surplus	**19,513**	2,842
Deficit	**(191,584)**	(133,163)
	839,529	531,976
Equity component of convertible debentures	**3,015**	16,517
Total shareholders' equity	**842,544**	548,493
Total capital employed	**$ 2,339,584**	$ 1,813,159

Mortgages and Credit Facilities

As at December 31, 2005, mortgages and credit facilities increased 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 6.5% at December 31, 2005 compared to 6.8% at December 31, 2004.

			2005	2004
(thousands of dollars)	**Canada**	**U.S.**	**Total**	Total
Fixed rate	**$ 1,080,239**	**$ 63,965**	**$ 1,144,204**	$ 880,277
Floating rate	**62,191**	**90,645**	**152,836**	122,688
	$ 1,142,430	**$ 154,610**	**$ 1,297,040**	$ 1,002,965

At December 31, 2005, 88% of the outstanding mortgage and credit facility liabilities bore interest at fixed interest rates which is consistent with 2004. 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, 2005 in the aggregate amount of $1,080.2 million as compared to $838.2 million at the end of 2004. The increase in the outstanding balance is the net result of $76.8 million in repayments and $318.8 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 7.2 years at December 31, 2004 to 6.4 years at December 31, 2005. 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 acquisition, 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$154.6 million are used 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$85.7 million at December 31, 2004 to US$132.9 million at December 31, 2005. On July 12, 2005, the Company increased the amount of its U.S. loan secured by the Equity One shares to US$120 million and extended the maturity to July 2010.

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, 2005, the Company had mortgages and credit facilities aggregating $77.1 million coming due in 2006, of which $17.3 million are mortgages at an average interest rate of 7.36% and $34.5 million is the scheduled amortization of principal balances during the year. The remaining $25.3 million of debt maturing in 2006 is represented by 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. Subsequent to December 31, 2005, the Company refinanced US$15 million of short-term U.S. credit facilities extending the maturity to 2010, with an option to further extend to 2011.

Series A Unsecured Debentures

On June 21, 2005, the Company issued $100 million principal amount of 5.08% senior unsecured debentures, with a maturity date of June 21, 2012. DBRS has provided First Capital Realty with a credit rating of BBB (low) with a stable trend relating to the debentures. The proceeds of the June 21, 2005 offering were used to repay the Company's credit facilities to fund acquisitions and development activities and for general corporate purposes.

Debt Maturity Profile

(thousands of dollars)	Mortgages and Credit Facilities	Unsecured Debentures	U.S. Credit Facilities	Total	% Due
2006	$ 53,352	$ —	$ 23,773	$ 77,125	5.5
2007	201,498	—	6,978	208,476	14.9
2008	80,557	—	6,978	87,535	6.3
2009	68,437	—	6,978	75,415	5.4
2010	83,734	—	109,903	193,637	13.8
2011	80,402	—	—	80,402	5.8
2012	107,024	100,000	—	207,024	14.8
2013	140,962	—	—	140,962	10.1
2014	186,249	—	—	186,249	13.3
2015	107,248	—	—	107,248	7.7
Thereafter	32,967	—	—	32,967	2.4
	$ 1,142,430	$ 100,000	$ 154,610	$ 1,397,040	100.0

The Company is liable for minimum land-lease payments of $0.6 million on certain of its properties in each year from 2006 to 2010 and $6.9 million thereafter. Total minimum land lease payments are $9.9 million. The leases expire between 2023 and 2039.

Convertible Debentures

(thousands of dollars)		**2005**			2004		
Interest Rate							
Coupon	Implicit	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
5.50%	5.97%	**$ 100,000**	**$ 96,990**	**$ 3,015**	$ —	$ —	$ —
7.00%	8.25%	**—**	**—**	**—**	99,999	96,595	8,238
7.25%	9.60%	**—**	**—**	**—**	161,702	151,141	8,279
		$ 100,000	**$ 96,990**	**$ 3,015**	$ 261,701	$ 247,736	$ 16,517

On December 19, 2005, the Company issued $100 million of 5.50% convertible unsecured subordinated debentures ("5.50% debentures") due September 30, 2017. The debentures require interest payable semi-annually on March 31 and September 30. Holders of the 5.50% debentures have the right to convert them into common shares at a share price of $27.00 through to December 31, 2011 and $28.00 thereafter to maturity. The Company may redeem the 5.50% debentures on or after December 31, 2009, but prior to January 1, 2012, provided the average trading price of the common shares for the 20 consecutive trading days ending five days prior to the redemption or maturity date is at 125% of the conversion price. The Company may redeem the 5.50% debentures after January 1, 2012 but prior to maturity at a price equal to the principal plus accrued interest. The Company has the option of repaying the 5.50% debentures on redemption by way of the issuance of common shares at 97% of a weighted average trading price of the Company's common stock. The Company also has the option of paying the semi-annual interest through the issue of common shares. It is the current intention of First Capital Realty to satisfy its obligations to pay principal and interest on its 5.50% convertible unsecured subordinated debentures by issuing common shares.

On September 30, 2005, the Company redeemed the outstanding $100 million principal amount of the 7.0% convertible debentures with the issuance of 4,995,205 shares. Prior to the redemption date, holders of $0.045 million principal amount of the 7.0% convertible debentures converted their debentures in accordance with the terms and conditions of the trust indenture. The early redemption of the 7.0% convertible debentures resulted in a non-cash gain of $0.2 million and an increase in contributed surplus of $8.2 million.

On March 31, 2005, the Company redeemed the outstanding $161.7 million principal amount of the 7.25% convertible debentures with the issuance of 8,411,386 shares. Prior to the redemption date, holders of $0.035 million principal amount of 7.25% convertible debentures converted their debentures in accordance with the terms and conditions of the trust indenture. The early redemption of the 7.25% convertible debentures resulted in a non-cash gain of $0.8 million and an increase in contributed surplus of $8.4 million.

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 $0.9 million and contributed surplus of $2.8 million.

In 2005, 543,547 (2004 – 1,177,143) common shares were issued to pay interest to holders of convertible debentures.

A change in GAAP, effective January 1, 2005 resulted in changes to the recorded liability and equity components of the Company's convertible debentures. See Summary of Changes to Significant Accounting Policies.

Shareholders' Equity

Shareholders' equity amounted to $843 million as at December 31, 2005, as compared to $548 million at the end of 2004. Shareholders' equity as at December 31, 2005 included $3.0 million (2004 – $16.5 million) representing the equity component of convertible debentures as discussed above.

As at December 31, 2005, the Company had 70,645,834 (2004 – 51,659,583) issued and outstanding common shares with a stated capital of $1,022.7 million (2004 – $673.7 million). During fiscal 2005, a total of 18,986,251 common shares were issued as follows: 543,547 shares for interest payments on convertible debentures; 2,700,000 shares in connection with a public offering; 13,410,006 common shares in connection with the redemption and conversion of convertible debentures and 900,956 shares from the exercise of common share options and warrants and 1,431,742 common shares under the Company's new dividend reinvestment plan ("DRIP").

The Company adopted a "DRIP" in May 2005 enabling Canadian resident shareholders who hold at least 500 common shares to reinvest cash dividends into additional common shares to be purchased through the Company's transfer agent directly from the Company without charge. Shareholders who elect to participate in the DRIP reinvest in additional common shares at a discount of 2% of the weighted average trading price of the common shares on the TSX for the five consecutive trading days preceding the dividend payment date.

Shareholders' equity as at December 31, 2005 included a negative cumulative, unrealized currency translation adjustment in the amount of $14.6 million (2004 – $13.3 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, 2005 and 2004, respectively. The U.S. dollar exchange rate in effect at December 31, 2005 decreased to US$1.00 = Cdn$1.16 from the exchange rate at December 31, 2004 of US$1.00 = Cdn$1.20. The impact of the decrease in the foreign exchange rate on the net assets held in the United States resulted in a $1.2 million change in the unrealized currency translation adjustment.

Shareholders' equity as at December 31, 2005 included a deficit of $191.6 million (2004 – $133.2 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 Options

As of December 31, 2005, the Company issued and had outstanding 1,145,105 share purchase options, with an average exercise price of $17.46. 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, 2005 were exercised, 1,145,105 shares would be issued and the Company would receive proceeds of approximately $20.0 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.

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 $5.3 million at December 31, 2005 (2004 – $4.9 million). At December 31, 2005, the Company had undrawn credit facilities totalling $157.7 million and had approved credit facilities totalling $275 million of which $226.5 million were available based on security provided to the banks. The Company also had unencumbered assets with a book value of approximately $73.6 million. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term.

The Company currently uses secured mortgages and credit facilities, unsecured debentures, convertible debentures and equity issues to finance its growth. The actual level and type of future borrowings will be determined based on prevailing interest rates, various costs of debt and equity capital, 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 2005, the Company paid regular dividends of $1.20 per common share (2004 – $1.17 per common share) and a special dividend of $0.20 per share in March 2005. The regular dividends as a percent of Funds from Operations per share are approximately 81% in 2005 compared to approximately 82% in 2004. 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 in 1994. Dividends declared totalled $87.6 million for the four quarters of 2005. Following the establishment of the DRIP effective for the second quarter, $45.2 million of the $59.9 million in dividends were reinvested by shareholders pursuant to the DRIP in common shares.

QUARTERLY ANALYSIS

	2005			
($000s except per share and other data)	**Q4**	**Q3**	**Q2**	**Q1**
Property rental revenue	**70,936**	**70,235**	**63,403**	**60,266**
Property rental expense	**25,676**	**26,864**	**23,769**	**23,482**
Net operating income	**45,260**	**43,371**	**39,634**	**36,784**
Net income	**7,626**	**8,740**	**6,479**	**6,351**
Net income/share	**$ 0.11**	**$ 0.26**	**$ 0.10**	**$ 0.27**
Net income/share diluted	**$ 0.11**	**$ 0.14**	**$ 0.10**	**$ 0.10**
Weighted average diluted shares outstanding – EPS	**68,893,289**	**69,758,875**	**64,327,921**	**61,283,912**
Funds from operations	**26,889**	**25,379**	**23,102**	**19,296**
Funds from operations/share diluted	**$ 0.38**	**$ 0.39**	**$ 0.36**	**$ 0.35**
Weighted average diluted shares outstanding – FFO	**71,311,303**	**65,355,568**	**64,327,921**	**54,730,436**
Dividend	**$ 0.30**	**$ 0.30**	**$ 0.30**	**$ 0.30**[1]
Total assets	**2,469,288**	**2,389,404**	**2,214,076**	**2,007,137**
Total mortgages and credit facilities	**1,297,040**	**1,331,505**	**1,167,915**	**1,054,492**
Shareholders' equity	**842,544**	**836,464**	**732,714**	**741,998**
Other Data				
Number of properties	**133**	**128**	**118**	**110**
Gross leasable area	**15,712,000**	**15,377,000**	**14,420,000**	**13,511,000**
Occupancy %	**95.0%**	**94.7%**	**94.7%**	**93.9%**

(1) Excludes special dividend of $0.20 paid to shareholders of record on March 29, 2005.

	2004			
($000s except per share and other data)	Q4	Q3	Q2	Q1
Property rental revenue	59,543	54,412	52,613	48,454
Property rental expense	23,441	19,155	20,701	18,907
Net operating income	36,102	35,257	31,912	29,547
Net income	6,030	5,385	3,534	2,938
Net income/share	$ 0.12	$ 0.17	$ 0.08	$ 0.08
Net income/share diluted	$ 0.12	$ 0.15	$ 0.08	$ 0.08
Weighted average diluted shares outstanding – EPS	51,977,136	50,970,595	43,366,400	39,098,047
Funds from operations	19,016	16,714	15,802	13,132
Funds from operations/share diluted	$ 0.37	$ 0.35	$ 0.36	$ 0.34
Weighted average diluted shares outstanding – FFO	51,977,136	47,723,521	43,366,400	39,098,047
Dividend	$ 0.30	$ 0.29	$ 0.29	$ 0.29
Total assets	1,893,597	1,835,578	1,779,647	1,654,257
Total mortgages and credit facilities	1,002,965	975,538	918,485	829,412
Shareholders' equity	548,493	553,928	452,431	429,174
Other Data				
Number of properties	104	103	101	93
Gross leasable area	13,024,000	12,692,000	12,489,000	11,698,000
Occupancy %	94.1%	93.7%	93.8%	93.3%

The growth over the eight quarters in 2004 and 2005 in property, rental revenue, property expenses and net operating income is primarily due to acquisitions, development coming on-line and leasing activity.

Refer to the MD&A and the Quarterly Financial Statements for discussion and analysis relating to the four quarters in 2004 and the first three quarters in 2005. A discussion of the fourth quarter of 2005 follows.

Q4 2005 Operations and Results

During the fourth quarter of 2005, the Company acquired interests in four income-producing shopping centres in Ontario, Alberta, British Columbia and Quebec. The aggregate acquisition amount of $40.8 million, including closing costs, was funded in cash.

The Company also invested $19.3 million in acquiring additional space and four land parcels at or adjacent to existing properties adding 3,000 square feet of gross leasable area and 11.7 acres of expansion land to the portfolio.

In the fourth quarter of 2005, 104,000 square feet of newly developed space came on-line in the following shopping centres:

Property Name	City	Province	Gross Leasable Area Square Feet	Major Anchors
Harwood	Ajax	ON	10,000	The Bargain Shop
Red Deer Village	Red Deer	AB	16,000	Shoppers Drug Mart
Royal Oak	Calgary	AB	39,000	Home Outfitters
Place Bordeaux	Gatineau	QC	13,000	Marche Frais
Others			26,000	
			104,000	

The 104,000 square feet of space developed and brought on-line during the quarter was leased at an average rate of $16.64 per square foot.

In addition to acquisitions of income-producing properties and development assets, the Company invested $36.3 million during the fourth quarter in its active development projects as well as in certain improvements to existing properties.

Leasing activity in the fourth quarter of 2005 resulted in net new leasing of 152,000 square feet, including development projects coming on-line, and renewal leasing of 138,000 square feet. The average rate per occupied square foot at December 31, 2005 increased to $13.61 from $13.56 at September 30, 2005. Portfolio occupancy at December 31, 2005 increased to 95.0% from 94.7% at September 30, 2005. Properties acquired during the fourth quarter had an average lease rate per square foot of $12.28, and occupancy of 98%.

FFO per diluted share was $0.38 in the fourth quarter of 2005 compared to $0.37 in the fourth quarter of 2004. The increase was due primarily to the Company's property acquisitions and development projects coming on-line partially offset by an increase of 37% in the weighted average diluted number of shares outstanding.

Net operating income increased to $45.3 million from $36.1 million in the fourth quarter of 2004. The increase was due to $6.9 million from 2005 acquisitions, $0.2 million from the incremental impact of acquisitions made in 2004, $1.9 million from properties under development and same property income growth of $0.5 million or 2.0%.

OUTLOOK

In 2005, First Capital Realty made significant progress in meeting or exceeding all of its stated goals and objectives. 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 2006, the Company's objectives are:
- to increase the size of the Company's income-producing portfolio through acquisition and development 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; and
- to further increase the market capitalization and public float of the Company.

First Capital Realty has a focussed and clear strategy for managing and growing its business, and management believes the Company is well positioned to continue to deliver increased value to investors over the long term. Focussed acquisitions, proactive 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 remains extremely competitive. Nevertheless, the Company will continue to acquire properties that are well located and of high quality where they add strategic value and/or operating synergies provided they will be accretive to FFO over the long term.

Development and redevelopment activities will continue to provide the Company with opportunities to participate in growth markets and once completed, generate higher returns on investment.

With respect to acquisitions of both income-producing and development properties, the Company will continue to focus on maintaining the sustainability and growth potential of rental income to ensure that among other things, refinancing risk is minimized. This is particularly important in the current environment with decreasing capitalization rates resulting from 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 while producing superior returns on investment over the long term.

EVENTS SUBSEQUENT TO DECEMBER 31, 2005

Acquisitions
Since January 1, 2006, First Capital Realty has invested $56.3 million in the acquisition of interests in two income-producing properties totalling 160,000 square feet, both in Calgary and the purchase of additional space and land parcels at or adjacent to existing properties, adding 101,000 square feet of space at three properties and 2.3 acres of commercial land at two properties. The two income property acquisitions are detailed below.

The Company acquired Richmond Square, a 102,000 square foot shopping centre located on the northeast corner of Sarcee Trail and Richmond Road in Calgary, Alberta. The centre is

anchored by an adjacent tenant-owned Canadian Tire store, as well as a 41,000 square foot Home Outfitters store and a 25,000 square foot Goodlife Fitness centre. The purchase price of approximately $19.6 million, including closing costs, was satisfied in cash. The property is situated across the street from the Company's London Place shopping centre.

The Company acquired a 58,000 square foot neighbourhood shopping centre, with a redevelopment opportunity, located on the southwest corner of Southland Drive SE and Fairmount Drive SE in Calgary, Alberta. Major tenants include a 9,000 square foot Royal Bank and a 3,000 square foot Tim Hortons. The purchase price of approximately $10.4 million, including closing costs, was satisfied by a combination of cash and the assumption of $3.9 million of debt at 6.84% fixed rate due in January 2008.

Interest on Convertible Debentures
On February 21, 2006 the Company announced that it will pay the interest due on March 31, 2006 to holders of both classes of its 5.50% debentures due September 30, 2017, by the issuance of common shares. The number of common shares to be issued per $1,000 principal amount of debentures will be calculated by dividing the dollar amount of interest payable by an amount equal to 97% of the volume-weighted average trading price of the common shares of First Capital Realty on the TSX calculated for the 20 consecutive trading days ending on March 24, 2006. The interest payment due is approximately $1.54 million.

It is the current intention of the Company to continue to satisfy its obligations to pay principal and interest on its 5.50% debentures by the issuance of common shares.

Quarterly Dividend
The Company announced that it will pay a dividend of $0.30 per common share on April 6, 2006 to shareholders of record on March 29, 2006. The Board of Director's current intention is to increase the quarterly dividend to $0.31 starting with the 2006 second quarter dividend.

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 the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 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, tenant relationships and mortgages, if any.

Management uses estimates and judgments to determine the following:
- 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 used 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-producing properties and mortgages receivable. The fair value of investments in income-producing properties is dependent upon anticipated future cash flows from operations over the anticipated holding period.

The review of anticipated cash flow 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 building proves 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, unsecured debentures, loans, mortgages and marketable securities 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 2005 are as follows:

Variable Interest Entities

In June 2003, CICA issued Accounting Guideline 15 ("AcG15"), Consolidation of Variable Interest Entities ("VIE"), which was effective January 1, 2005. AcG15 provides guidance on identifying entities for which control is achieved through means other than voting rights, and how to determine when and which business enterprises should consolidate the VIE. The adoption of this change in accounting policy did not have a material impact on the consolidated financial statements.

Convertible Debentures – Retroactive Application

Effective January 1, 2005, the Company adopted the revisions to CICA 3860 ("Financial Instruments") and applied them retroactively. This change affected 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 have been affected by the changes to GAAP.

Convertible Debentures – The Debenture Element

The debenture element is broken down into 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 Realty'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.

The change to Section 3860 (Financial Instruments) of the CICA handbook requires that the entire present value of the payment obligations be reflected as debt on the Company's balance sheet. This is due to the fact that the Company's option to settle the principal amount of the convertible debentures in common shares requires a variable number of shares to be issued.

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 retained earnings or deficit.

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

As a result of the change to GAAP, all interest expense is now reflected in the statement of 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 debentures. 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 on the statement of operations. For issue costs related to the holders' option, issue costs are not amortized.

As a result of the change in GAAP, all issue cost amortization is now 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 was deemed to be the value of the option to convert to equity at a pre-determined price. This value was 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 continues 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 as follows:

(thousands of dollars)	Increase (Decrease)
Assets	$ 1,547
Liabilities	247,736
Shareholders' equity	(246,189)

The impact on the consolidated statement of operations for the year ended December 31, 2004 was as follows:

(thousands of dollars)	Increase (Decrease)
Interest and amortization expense	$ 27,353
Loss on redemption 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.

Future changes in accounting policies
The CICA released section 3855, Financial Instruments – Recognition and Measurement, which standard is applicable to the Company commencing January 1, 2007. This standard provides more comprehensive guidance on how to recognize financial instruments on the balance sheet, how to measure them, and how to account for gains and losses. The Company is currently in the process of assessing the impact of this new standard on its consolidated financial statements.

Disclosure Controls and Procedures
The Company maintains appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Company evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2005 and have concluded that such disclosure controls and procedures are operating effectively.

RISKS AND UNCERTAINTIES

First Capital Realty, as an owner of income-producing properties 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-producing and development properties are affected by general economic conditions and local market conditions such as oversupply of similar properties 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, Alberta and British Columbia. 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 56.5% of the Company's annualized minimum rent from its Canadian portfolio.

Tenant	Number of Stores	Square Feet	Percent of Total Canadian Gross Leasable Area	Percent of Total Canadian Annualized Minimum Rent	S&P[1] Organization Credit Rating
Top Thirty Tenants					
1 Sobeys (including Western Cellars)	36	1,326,000	8.4%	8.0%	BBB–
2 Loblaws	25	1,314,000	8.4%	7.7%	A
3 Metro / A&P	23	819,000	5.2%	4.4%	BBB
4 Canadian Tire (incl. Mark's Work Wearhouse)	18	716,000	4.6%	4.3%	BBB+
5 Zellers	15	1,406,000	8.9%	4.3%	BB–
6 Shoppers Drug Mart (incl. Home Health Care)	35	432,000	2.8%	4.3%	BBB
7 Canada Safeway	8	326,000	2.1%	1.9%	BBB–
8 Wal-Mart	4	474,000	3.0%	1.8%	AA
9 TD Canada Trust	23	112,000	0.7%	1.6%	A+
10 CIBC	21	98,000	0.6%	1.3%	A+
11 Royal Bank	16	104,000	0.7%	1.1%	AA–
12 H. Y. Louie Group (London Drugs)	7	181,000	1.2%	1.1%	
13 Save-On-Foods	4	181,000	1.2%	1.1%	
14 Rogers	25	101,000	0.6%	1.1%	BB
15 Reitmans Group	32	147,000	0.9%	1.0%	
16 Scotiabank	17	84,000	0.5%	1.0%	AA–
17 Winners / HomeSense	4	150,000	1.0%	0.9%	A
18 Tim Hortons / Wendy's	33	93,000	0.6%	1.0%	BBB+
19 LCBO	10	90,000	0.6%	0.9%	AA
20 Staples	7	163,000	1.0%	0.9%	BBB
21 Future Shop	5	140,000	0.9%	0.9%	BBB
22 Blockbuster	16	80,000	0.5%	0.8%	B–
23 SAQ	14	50,000	0.3%	0.7%	A+
24 Dollarama	15	124,000	0.8%	0.7%	B+
25 Pharma Plus	9	65,000	0.4%	0.7%	
26 Forzani Group (Sport Mart / Sport Chek)	7	88,000	0.6%	0.7%	
27 Cara Operations (Swiss Chalet / Kelsey's / Second Cup)	15	57,000	0.4%	0.7%	
28 Toys 'R' Us	3	113,000	0.7%	0.6%	B–
29 Bank of Montreal	13	53,000	0.3%	0.6%	AA–
30 Michael's Arts and Crafts	3	68,000	0.4%	0.4%	BBB–
Total: Top 30 Tenants	**463**	**9,155,000**	**58.3%**	**56.5%**	

(1) Standard & Poor's

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 1.5% to 9.0% of the annualized minimum rent in the Company's portfolio.

The Company's lease maturity profile at December 31, 2005 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	49	241,000	1.5%	$ 3,260,000	1.5%	$ 13.55
2006	404	1,164,000	7.4%	15,162,000	7.1%	13.02
2007	322	867,000	5.5%	14,607,000	6.8%	16.85
2008	325	1,128,000	7.2%	16,309,000	7.6%	14.46
2009	307	1,117,000	7.1%	19,087,000	9.0%	17.09
2010	254	919,000	5.8%	15,485,000	7.3%	16.85
2011	103	897,000	5.7%	11,572,000	5.4%	12.91
2012	119	908,000	5.8%	15,137,000	7.1%	16.67
2013	124	991,000	6.3%	15,021,000	7.0%	15.16
2014	135	883,000	5.6%	13,122,000	6.2%	14.87
2015	105	980,000	6.2%	14,314,000	6.7%	14.60
2016	25	752,000	4.8%	8,416,000	3.9%	11.19
Thereafter	138	4,075,000	26.1%	51,761,000	24.4%	12.70
Total/Average	**2,410**	**14,922,000**	**95.0%**	**$ 213,253,000**	**100.0%**	**$ 14.29**

Financing and Repayment of Indebtedness

The Company has outstanding indebtedness in the form of mortgages, credit facilities, debentures 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.

Credit Ratings

Changes or anticipated changes in the credit rating assigned by DBRS to the Company's unsecured debentures, or changes in the stability rating, may affect the Company's access to financial markets and its cost of borrowing.

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 Regulations and Environmental Risk

The Company and its real estate investments are subject to various government legislation and regulations. Any change in such legislation or regulations adverse to the Company or its investments could 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 the Company's business, financial condition or results of operations.

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	Location	Year Built or Acquired	Total Square Footage	Percent Occupied	Anchors and Major Tenants
ONTARIO (51)					
Cedarbrae Mall	Toronto	1996	479,000	93.3%	Loblaws, Zellers, Canadian Tire, Toys 'R' Us, LCBO, Scotiabank, CIBC, Bally Total Fitness, Dollarama
Fairview Mall	St. Catharines	1994	394,000	99.4%	Food Basics (A&P), Zehrs [1] (Loblaws), Zellers, Cineplex, Chapters, Office Depot, Future Shop, Mark's Work Wearhouse, LCBO, CIBC, Scotiabank, Sport Chek
College Square [3]	Ottawa	**2005**	388,000	100.0%	Loblaws, Home Depot, Pharma Plus, Rogers, Reitmans, LCBO, Bank of Montreal, Beer Store
Meadowvale Town Centre	Mississauga	2003	382,000	94.8%	Dominion (A&P), Canadian Tire, Shoppers Drug Mart, LCBO, TD Canada Trust, CIBC, Bank of Montreal
Gloucester City Centre	Ottawa	2003	342,000	98.3%	Loblaws, Zellers, Pharma Plus, Scotiabank, CIBC
Brantford Mall	Brantford	1995	325,000	86.4%	Zehrs (Loblaws), Wal-Mart, Cineplex, LCBO, CIBC, Reitmans
Brampton Corners	Brampton	2001	302,000	100.0%	Fortino's (Loblaws), Wal-Mart, Chapters, National Bank, Scotiabank, Kelsey's
Tillsonburg Town Centre [2]	Tillsonburg	1994	277,000	89.9%	Zellers, Canadian Tire, Business Depot (Staples), Shoppers Drug Mart, LCBO, CIBC, TD Canada Trust
Parkway Centre	Peterborough	1996	248,000	100.0%	Price Chopper (Sobeys), Zellers, Winners, Reitmans, Sport Mart
Bridgeport Plaza	Waterloo	1994	208,000	97.0%	Sobeys, Zellers, Rogers Video
Harwood Plaza	Ajax	1999	211,000	96.7%	Food Basics (A&P), Shoppers Drug Mart, Scotiabank, Blockbuster
Stanley Park Mall	Kitchener	1997	189,000	96.9%	Zehrs (Loblaws), Zellers, Pharma Plus, LCBO, TD Canada Trust
Queenston Place	Hamilton	1995	171,000	98.8%	Zellers, Mark's Work Wearhouse, Penningtons (Reitmans), Aaron's Electronics
Fairway Plaza	Kitchener	**2005**	169,000	98.5%	Food Basics (A&P), Winners/HomeSense, Sport Chek, Pier 1 Imports, Dollarama
Sheridan Plaza	Toronto	1996	168,000	100.0%	Food Basics (A&P), Zellers
Appleby Mall	Burlington	2004	165,000	95.2%	Fortino's (Loblaws), Pharma Plus, LCBO, Bank of Montreal
Ambassador Plaza	Windsor	1994	153,000	97.3%	Zellers, LCBO, CIBC, Scotiabank, Royal Bank
University Plaza	Windsor	2001	150,000	96.8%	A&P, Canadian Tire, Shoppers Drug Mart, Bank of Montreal
Westney Heights Plaza	Ajax	2002	147,000	98.5%	Sobeys, Shoppers Drug Mart, CIBC, Scotiabank, TD Canada Trust
Bowmanville Mall	Bowmanville	**2005**	99,000	72.1%	A&P, Shoppers Drug Mart, Dollarama
Grimsby Square Shopping Centre	Grimsby	**2005**	127,000	100.0%	Sobeys, Canadian Tire, Shoppers Drug Mart, Royal Bank, Mark's Work Wearhouse, Beer Store
Festival Marketplace	Stratford	1997	126,000	100.0%	Sears [1], Canadian Tire [1]
Orleans Gardens [3]	Ottawa	1997	111,000	78.9%	Your Independent Grocer (Loblaws), CIBC, Scotiabank, Rogers Video
McLaughlin Corners [3]	Brampton	2002	110,000	100.0%	A&P, Shoppers Drug Mart, Royal Bank, Rogers Video, Pizza Hut
Loblaws Plaza	Ottawa	**2005**	106,000	100.0%	Loblaws, Fabricland
Maple Grove Village	Oakville	2003	100,000	98.7%	Sobeys, Pharma Plus, CIBC, Rogers Video
King Liberty Village	Toronto	2004	99,000	96.0%	A&P, TD Canada Trust, Blockbuster, Toronto Economic Development Corp
Thickson Place	Whitby	1997	93,000	100.0%	A&P, Toys 'R' Us [1], CIBC, TD Canada Trust
York Mills Gardens	Toronto	2004	90,000	98.5%	Longo's Supermarket, Shoppers Drug Mart, TD Canada Trust, Rogers Video
Strandherd Crossing	Ottawa	2004	90,000	98.2%	Loeb (Metro), Shoppers Drug Mart, Royal Bank, TD Canada Trust, Rogers Video
Brooklin Towne Centre [3]	Whitby	2003	90,000	100.0%	Price Chopper (Sobeys), Shoppers Drug Mart, Scotiabank
Norfolk Mall	Tillsonburg	2004	88,000	87.8%	Zehrs (Loblaws) [1], Wal-Mart
Byron Village	London	2002	89,000	99.1%	A&P, Pharma Plus, LCBO, TD Canada Trust, Rogers Video
Chartwell Shopping Centre	Toronto	**2005**	85,000	95.9%	Price Chopper (Sobeys), Shoppers Drug Mart, CIBC, Bank of Montreal
Credit Valley Town Plaza	Mississauga	2003	84,000	100.0%	Loblaws, Pharma Plus, CIBC, TD Canada Trust, Rogers Video
Dufferin Corners [4]	Toronto	2003	76,000	84.8%	Shoppers Drug Mart, TD Canada Trust
Midland Lawrence Plaza	Toronto	2002	76,000	94.5%	Price Chopper (Sobeys), Part Source (Canadian Tire), Tormedco
Eagleson Place	Ottawa	1997	76,000	90.2%	Loblaws, Rogers Video
Delta Centre	Cambridge	1998	71,000	97.6%	Price Chopper (Sobeys), Dollarama, Shoppers Home Health Care

Property	Location	Year Built or Acquired	Total Square Footage	Percent Occupied	Anchors and Major Tenants
Towerhill Centre	Peterborough	2001	70,000	89.0%	Sobeys, Government of Canada
Wellington Corners	London	1999	68,000	97.1%	Price Chopper (Sobeys), Shoppers Drug Mart, Montana's
Steeple Hill Shopping Centre	Pickering	2000	65,000	95.7%	Price Chopper (Sobeys), Shoppers Drug Mart, Blockbuster
Merchandise Building	Toronto	2004	53,000	63.1%	Dominion (A&P)
Northfield Centre [9]	Waterloo	1999	52,000	100.0%	Sobeys, Pharma Plus, Royal Bank, Rogers Video
Yonge-Davis Centre	Newmarket	2003	50,000	94.0%	Sleep Country
Burlingwood Shopping Centre	Burlington	**2005**	46,000	100.0%	No Frills (Loblaws), Pharma Plus
Bayview Lane Plaza	Markham	2003	46,000	97.2%	Food Basics (A&P), Bank of Montreal
3434 Lawrence	Toronto	2003	37,000	100.0%	Business Depot (Staples), Mark's Work Wearhouse
Adelaide Shoppers	London	**2005**	19,000	100.0%	Shoppers Drug Mart, Wendy's
Shoppers Waterloo	Waterloo	2004	15,000	100.0%	Shoppers Drug Mart
Eagleson Cope Drive	Ottawa	2003	—	100.0%	Loblaws
Sub-Total – Ontario			**7,275,000**	**95.7%**	
QUEBEC (45)					
Les Galeries de Lanaudière [3]	Lachenaie	2002	269,000	100.0%	Staples, Winners, Future Shop, Sears Home, Home Depot [1], Pier 1 Imports, Dollar Max, Old Navy, Reitmans, Kelsey's, TD Canada Trust
Galeries Normandie	Montréal	2002	223,000	99.5%	IGA (Sobeys), Provigo (Loblaws), Pharmaprix, Rossy, Royal Bank, Bank of Montreal, SAQ, Baron Sports, Dollarama
Centre Domaine	Montréal	2002	195,000	98.6%	Metro [3], Zellers, Rossy, CIBC, Dollarama, Uniprix
Centre commercial Côte St. Luc	Montréal	2002	182,000	94.0%	IGA (Sobeys), Jean Coutu, SAQ, Royal Bank, Blockbuster, World Gym, Dollarama
Plaza Delson	Delson	2002	173,000	100.0%	Loblaws, Jean Coutu, Cineplex, SAQ, National Bank, Rogers Video
Carrefour St. Hubert	Longueuil	2002	160,000	55.0%	Provigo (Loblaws), Jean Coutu, CIBC, SAQ, Dollarama
La Porte de Gatineau	Gatineau	1994	155,000	98.4%	Maxi (Loblaws), Toys 'R' Us [1], Future Shop, CIBC, TD Canada Trust, SAQ
Place Viau	Montréal	2002	152,000	100.0%	Maxi (Loblaws), Zellers
Promenades Lévis	Lévis	2004	141,000	80.3%	Metro, Bank of Montreal
Carrefour Soumande	Québec City	2004	140,000	87.1%	Toys 'R' Us, Fruiterie 440
La Porte de Châteauguay	Châteauguay	1995	132,000	100.0%	Zellers, Blockbuster
Centre commercial Wilderton	Montréal	2002	127,000	94.7%	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank, Laurentian Bank, Femme Fitness, Dollarama
Centre commercial Beaconsfield	Montréal	2002	128,000	87.0%	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank, Dollarama
Centre Maxi Trois Rivières	Trois Rivières	2003	122,000	99.3%	Maxi (Loblaws), Value Village, Jean Coutu, Bank of Montreal, Blockbuster
Les Galeries de Repentigny	Repentigny	1997	120,000	98.9%	Super C (Metro), Pharmaprix (Shoppers Drug Mart)
Place Pointe-aux-Trembles	Montréal	2002	119,000	94.2%	Metro, Rossy, Jean Coutu
Centre commercial Maisonneuve [2]	Montréal	2003	114,000	93.0%	Provigo (Loblaws), Canadian Tire, TD Canada Trust, SAQ, Brunet, Rogers Video
Place Fleury	Montréal	2002	110,000	100.0%	Metro, Pharmaprix (Shoppers Drug Mart), SAQ
Les Promenades du Parc	Longueuil	1997	105,000	94.3%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Blockbuster, National Bank
Plaza Don Quichotte	Île Perrot	2004	99,000	97.2%	IGA (Sobeys), SAQ, Caisse Populaire Desjardins
Hooper Building	Sherbrooke	**2005**	93,000	86.1%	IGA Extra (Sobeys), Familiprix
Place Pierre Boucher	Longueuil	2004	89,000	76.6%	Maxi (Loblaws), Pharmaprix (Shoppers Drug Mart), SAQ
Centre commercial Van Horne	Montréal	2002	80,000	97.4%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Royal Bank, Scotiabank
Carrefour du Versant	Gatineau	2003	80,000	97.3%	IGA (Sobeys), Dollarama, Familiprix, TD Canada Trust, SAQ
Place des Cormiers	Sept-Îles	2004	75,000	94.6%	Provigo (Loblaws), Bureau en Gros (Staples), SAQ
Place Vilamont	Laval	2002	72,000	98.2%	Provigo (Loblaws), Jean Coutu, Laurentian Bank
Carrefour Don Quichotte	Île Perrot	2004	72,000	93.5%	Metro, Pharmacie Essaim, CIBC
Plaza Laval Élysée	Laval	2004	63,000	100.0%	Provigo (Loblaws), Pharmaprix (Shoppers Drug Mart), Laurentian Bank
Place Nelligan [4]	Gatineau	2002	59,000	94.2%	IGA (Sobeys), Citifinancial
Place Michelet	Montréal	**2005**	59,000	97.3%	IGA Extra (Sobeys), TD Canada Trust
Galeries Brien	Repentigny	2002	59,000	98.0%	IGA (Sobeys), Uniprix
Place Cité Des Jeunes	Gatineau	2001	58,000	97.6%	Metro, Uniprix
Galeries des Chesnaye	Lachenaie	**2005**	57,000	94.5%	IGA (Sobeys), Uniprix, SAQ

Property	Location	Year Built or Acquired	Total Square Footage	Percent Occupied	Anchors and Major Tenants
Le Campanîle	Montréal	2003	58,000	97.1%	Pharmaprix (Shoppers Drug Mart), Bank of Montreal
Place Seigneuriale	Québec City	2004	54,000	97.1%	Metro, Royal Bank, Nautilus Plus
Place de la Colline	Chicoutimi	2004	52,000	100.0%	Maxi (Loblaws), Uniprix
Toys 'R' Us / Pier 1 Imports	Montréal	2002	52,000	100.0%	Toys 'R' Us, Pier 1 Imports
Carrefour des Forges	Drummondville	**2005**	50,000	100.0%	IGA (Sobeys)
Place Provencher	Montréal	2004	46,000	100.0%	Bureau en Gros (Staples), Uniprix
Place Roland Therrien	Longueuil	2000	42,000	100.0%	Super C (Metro) [1], Scotiabank, Blockbuster
Place du Commerce	Montréal	2004	40,000	100.0%	IGA (Sobeys), Jean Coutu
IGA Tremblant	Mont-Tremblant	2004	38,000	100.0%	IGA (Sobeys)
Village des Valeurs	Laval	2002	27,000	100.0%	Value Village
Place Bordeaux [5]	Gatineau	2002	28,000	85.0%	Pharmaprix (Shoppers Drug Mart), Marche Frais
Verdun Shoppers	Montréal	**2005**	19,000	87.4%	Pharmaprix (Shoppers Drug Mart)
Sub-Total – Québec			**4,388,000**	**94.2%**	
ALBERTA (18)					
Northgate Centre	Edmonton	1997	511,000	82.1%	Safeway, Zellers, Future Shop, Royal Bank, Sport Mart
South Park Centre	Edmonton	1996	377,000	96.4%	Canadian Tire, Zellers, Toys 'R' Us [1], Office Depot (Safeway), Linens 'n Things, Laura's Shoppes, Sport Chek
Royal Oak [6]	Calgary	2003	336,000	99.4%	Sobeys, Wal-Mart, London Drugs, Royal Bank, Blockbuster, Royal Oak Clinic, Reitmans, Petcetera, Home Outfitters
Towerlane Mall	Airdrie	**2005**	207,000	93.4%	Safeway, Saan Store, Super Drug Mart, TD Canada Trust, Blockbuster
Red Deer Village	Red Deer	1999	208,000	96.2%	Sobeys, Shoppers Drug Mart, Canadian Tire, Mark's Work Wearhouse, Sportmart, TD Canada Trust, Rogers Video, Reitmans
Sherwood Towne Square	Sherwood Park	1997	120,000	100.0%	Home Depot [1], Mark's Work Wearhouse, Staples, HomeSense, Royal Bank, Michael's
The Village Market	Sherwood Park	1997	116,000	97.9%	Safeway, London Drugs, Scotiabank
McKenzie Towne Centre	Calgary	2003	115,000	99.3%	Sobeys, Super Drug Mart, Blockbuster
Gateway Village	St. Albert	1994	107,000	96.0%	Safeway, CIBC, Royal Bank, Scotiabank
Tuscany Market	Calgary	2003	86,000	100.0%	Sobeys, Super Drug Mart, Scotiabank
West Lethbridge Towne Centre	Lethbridge	1998	83,000	95.9%	Safeway, Home Hardware, Blockbuster
Old Strathcona [3]	Edmonton	2003	79,000	98.5%	Canada Post, Edward D. Jones
Sherwood Centre	Sherwood Park	1997	76,000	94.9%	Save-On-Foods [1], CIBC, Rogers Video
London Place West	Calgary	1998	71,000	100.0%	London Drugs, Bank of Montreal, Rogers Video
Lakeview Plaza	Calgary	**2005**	64,000	94.1%	IGA (Sobeys), Super Drug Mart, Scotiabank
Uplands Common	North Lethbridge	**2005**	53,000	98.0%	Sobeys
Kingsland Shopping Centre	Calgary	**2005**	45,000	90.3%	Shoppers Drug Mart, Starbucks
Eastview Shopping Centre	Red Deer	2004	34,000	100.0%	IGA (Sobeys), Bank of Montreal, 7-Eleven
Sub-Total – Alberta			**2,688,000**	**93.9%**	
BRITISH COLUMBIA (11)					
West Oaks Mall [3]	Abbotsford	2004	271,000	99.3%	Save-On-Foods, Linens 'n Things, London Drugs, Future Shop, Michael's, Reitmans, CIBC, Pier 1 Imports, Sport Mart
Scott 72 Centre	Delta	2004	163,000	90.7%	London Drugs, Staples, TD Canada Trust, Van City Savings, Starbucks
Langley Mall	Langley	**2005**	132,000	97.0%	IGA Marketplace (H. Y. Louie Group), Army & Navy, TD Canada Trust
Langley Crossing Shopping Centre	Langley	**2005**	129,000	97.8%	Rona, BDO Financial Services, Citifinancial
Harbour Front Centre	Vancouver	**2005**	127,000	100.0%	Canadian Tire, Michael's, Van City Savings, Kelsey's
Pemberton Plaza	Vancouver	**2005**	86,000	94.9%	Save-On-Foods, Van City Savings, Starbucks
Terra Nova Shopping Centre	Richmond	**2005**	73,000	96.6%	Save-On-Foods, Royal Bank, Coast Capital Savings, Pizza Hut, Starbucks
Coronation Mall	Duncan	**2005**	58,000	100.0%	Save-On-Foods, TD Canada Trust, Blockbuster, BC Liquor Store
1331 Main St.	Vancouver	**2005**	55,000	100.0%	Innovation Giftware
Broadmoor Shopping Centre	Richmond	**2005**	43,000	77.6%	Royal Bank, Coast Capital Savings
Time Marketplace	Vancouver	2004	37,000	100.0%	IGA Marketplace (H. Y. Louie Group), Shoppers Drug Mart
Sub-Total – British Columbia			**1,174,000**	**96.6%**	

Property	Location	Year Built or Acquired	Total Square Footage	Percent Occupied	Anchors and Major Tenants
OTHERS (4)					
Regent Park Shopping Centre	Regina, SK	1999	67,000	86.5%	Safeway, Scotiabank
Cole Harbour Shopping Centre	Dartmouth, NS	1997	54,000	93.3%	Sobeys (1), Canadian Tire (1), Shoppers Drug Mart, TD Canada Trust
Ropewalk Lane	St. John's, NF	1997	40,000	73.8%	
Registan Shopping Centre	Regina, SK	1999	26,000	100.0%	Safeway, Scotiabank
Sub-Total – Others			**187,000**	**90.2%**	
TOTAL			**15,712,000**	**95.0%**	

(1) Tenant (or other) owned.

(2) Interest is leasehold.

(3) 50% interest owned, directly or indirectly, by the Company.

(4) 75% interest owned, directly or indirectly, by the Company.

(5) 80% interest owned, directly or indirectly, by the Company.

(6) 60% interest owned, directly or indirectly, by the Company.

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 8, 2006.

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

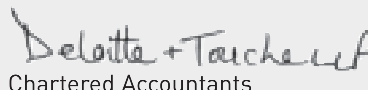
AUDITORS' REPORT

To the Shareholders of First Capital Realty Inc.
We have audited the consolidated balance sheets of First Capital Realty Inc. as at December 31, 2005 and 2004 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 8, 2006



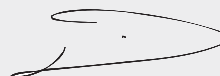
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

December 31 (thousands of dollars)	2005	2004
		(Restated – note 2)
ASSETS		
Real Estate Investments		
Shopping centres (note 3)	**$ 1,939,775**	$ 1,489,250
Land and shopping centres under development (note 4)	**136,475**	74,957
Deferred costs (note 5)	**52,938**	31,884
Intangible assets (note 6)	**24,340**	13,508
	2,153,528	1,609,599
Investment in Equity One, Inc. (note 7)	**211,830**	203,988
Loans, mortgages and other real estate assets (note 8)	**26,912**	18,130
	2,392,270	1,831,717
Other assets (note 9)	**37,592**	26,033
Amounts receivable (note 10)	**17,026**	14,276
Cash and cash equivalents	**5,335**	4,883
Future income tax assets (note 18)	**17,065**	16,688
	$ 2,469,288	$ 1,893,597
LIABILITIES		
Mortgages and credit facilities (note 11)	**$ 1,297,040**	$ 1,002,965
Accounts payable and other liabilities (note 12)	**102,116**	72,048
Unsecured debentures (note 13)	**100,000**	—
Convertible debentures payable (note 14)	**96,990**	247,736
Future income tax liabilities (note 18)	**30,598**	22,355
	1,626,744	1,345,104
SHAREHOLDERS' EQUITY (note 15)	**842,544**	548,493
	$ 2,469,288	$ 1,893,597

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

Years ended December 31 (thousands of dollars, except per share amounts)	**2005**	2004
		(Restated – note 2)
REVENUE		
Property rental revenue	**$ 264,840**	$ 215,022
Interest and other income	**3,802**	6,480
	268,642	221,502
EXPENSES		
Property operating costs	**99,791**	82,204
Interest expense (note 16)	**80,332**	80,258
Amortization (note 17)	**50,321**	38,056
Corporate expenses	**14,372**	11,639
	244,816	212,157
Equity income from Equity One, Inc. (note 7)	**17,475**	18,228
Gain on disposition of real estate	**—**	1,163
Dilution gain on investment in Equity One, Inc	**—**	3,201
Gain (loss) on redemption of convertible debentures (note 14)	**1,018**	(934)
Income before income and other taxes	**42,319**	31,003
Income and other taxes (note 18):		
Current	**4,067**	4,806
Future	**9,056**	8,310
	13,123	13,116
Net income	**$ 29,196**	$ 17,887
Net earnings per common share (note 19)		
Basic	**$ 0.72**	$ 0.46
Diluted	**$ 0.50**	$ 0.45

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF DEFICIT

Years ended December 31 (thousands of dollars)	**2005**	2004
		(Restated – note 2)
Deficit, beginning of year	**$ (133,163)**	$ (96,279)
Net income for the year	**29,196**	17,887
Dividends	**(87,617)**	(54,771)
Deficit, end of year	**$ (191,584)**	$ (133,163)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (thousands of dollars)	**2005**	2004
		(Restated – note 2)
CASH FLOW PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	**$ 29,196**	$ 17,887
Items not affecting cash		
Amortization	**48,225**	35,332
Amortization of deferred financing fees	**2,096**	2,724
Amortization of above- and below-market leases	**(1,130)**	(289)
Amortization of deferred rent receivable	**(3,677)**	(3,559)
Gain on disposition of real estate and investments	**—**	(1,163)
(Gain) loss on redemption of convertible debentures	**(1,018)**	934
Non-cash compensation expense	**1,581**	960
Convertible debenture interest in excess of coupon	**1,438**	3,953
Convertible debenture interest paid in common shares	**10,465**	19,137
Equity income from Equity One, Inc.	**(17,475)**	(18,228)
Dilution gain on investment in Equity One, Inc.	**—**	(3,201)
Future income taxes	**9,056**	8,310
Deferred leasing costs	**(7,621)**	(3,491)
Dividends received from Equity One, Inc.	**18,221**	18,671
Net change in non-cash operating items	**5,293**	(3,168)
Cash provided by operating activities	**94,650**	74,809
INVESTING ACTIVITIES		
Acquisition of shopping centres (note 3)	**(309,308)**	(171,451)
Acquisition of land for development (note 4)	**(52,161)**	(24,399)
Proceeds on disposition of real estate	**—**	8,523
Expenditures on shopping centres	**(27,050)**	(34,718)
Expenditures on land and shopping centres under development	**(62,843)**	(52,502)
Investment in common shares of Equity One, Inc.	**(15,882)**	(5,381)
Repayment of loans and mortgage receivable	**3,065**	1,286
Investment in marketable securities	**(30,509)**	(8,580)
Proceeds on disposition of marketable securities	**19,056**	8,758
Cash used in investing activities	**(475,632)**	(278,464)
FINANCING ACTIVITIES		
Proceeds of mortgage financings and credit facilities	**441,443**	169,086
Repayments of mortgages payable and credit facilities	**(260,364)**	(35,059)
Payment of financing fees	**(3,493)**	(2,250)
Issuance of common shares, net of issue costs	**61,842**	159,938
Repayment or redemption of debentures	**—**	(35,134)
Issuance of unsecured debentures, net of issue costs	**95,365**	—
Issuance of convertible debentures, net of issue costs	**98,912**	—
Payment of dividends	**(52,363)**	(48,749)
Cash provided by financing activities	**381,342**	207,832
Effect of currency rate movement on cash balances	**92**	627
Increase in cash and cash equivalents	**452**	4,804
Cash and cash equivalents, beginning of the year	**4,883**	79
Cash and cash equivalents, end of the year	**$ 5,335**	$ 4,883
SUPPLEMENTARY INFORMATION		
Cash income taxes paid	**$ 4,495**	$ 4,110
Cash interest paid (note 16)	**$ 75,935**	$ 63,924

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004 (thousands of dollars, except per share amounts and as otherwise noted)

1. SIGNIFICANT ACCOUNTING POLICIES

First Capital Realty Inc. (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, co-ownership 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.

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 pre-determined 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 shopping centre 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 shopping centres.

(f) Impairment of Long-Lived Assets
Long-lived assets are 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. Assets reviewed for impairment under this policy include shopping centres, land and shopping centres under development, intangible assets, and furniture, fixtures and equipment.

(g) Furniture, Fixtures and Equipment
Furniture, fixtures and equipment are recorded at cost.

(h) Marketable Securities
Marketable securities are stated at the lower of cost and quoted market value.

(i) 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.

(j) 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.

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.

Lease origination costs and above and below-market leases 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 immediately.

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

Furniture, fixtures and equipment are amortized on a straight-line basis over estimated useful lives ranging from three to ten years.

(k) Cash and Cash Equivalents

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

(l) 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 periods being reported on.

(m) 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.

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.

(n) Convertible Debentures

The Company presents its convertible debentures in their liability and equity component parts where applicable, as follows:

(i) The liability component represents the present value of interest and principal obligations to be satisfied by cash or common shares of the Company, where a variable number of common shares is required to settle the obligation, 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, the interest payments are treated as a reduction of the liability component and interest expense, calculated on the discount rate is recorded as an increase in the liability component. On January 1, 2005, the Company changed its accounting policy for convertible debentures in accordance with recommendations of the Canadian Institute of Chartered Accountants ("CICA"). Previously, only the present value of interest and principal obligations that were required to be settled in cash were presented as liabilities. This change was applied retroactively with restatement of prior periods, and is described in note 2.

(ii) The equity component of the convertible debentures is included in Shareholders' Equity in the consolidated balance sheets. The equity component consists of the value ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the debentures. Prior to the change in accounting policy, the equity component also included the present value of obligations that could be settled in common shares at the Company's option.

(o) 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.

(p) Stock-Based Compensation Plans

The Company has stock-based compensation plans as described in note 15(d) and (e). The Company recognizes compensation expense for stock-based compensation awards at the fair value as at the granting date over the vesting period.

(q) 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. Significant estimates are required in the allocation of the purchase prices of shopping centre acquisitions, determining future cash flows when assessing assets for impairment, determining the useful lives of assets for amortization purposes, and determining fair values of financial instruments.

2. CHANGES IN ACCOUNTING POLICIES

(i) Convertible Debentures

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") new accounting requirements on the classification of financial instruments as liabilities or equity. The CICA amended its 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 standards, a portion of convertible debentures previously presented as equity on the Company's balance sheet has been reclassified as a liability. Correspondingly, interest expense and related amortization of issue costs recognized on the convertible debentures are presented on the consolidated statements of operations as opposed to the previous presentation on the consolidated statements of deficit. The value ascribed to the conversion rights of the holders remain in shareholders' equity. These presentation changes had no impact on the Company's earnings per share. The changes have been applied retroactively with restatement of prior periods and had the following impact on the Company's consolidated balance sheet at December 31, 2004:

(thousands of dollars)	Increase (Decrease)
Assets	$ 1,547
Liabilities	247,736
Shareholders' equity	(246,189)

The impact on the consolidated statement of operations for the year ended December 31, 2004 was as follows:

(thousands of dollars)	Increase (Decrease)
Interest and amortization expense	$ 27,353
Gain/loss on redemption of convertible debentures	719
Future income tax expense	(8,672)
Net income	(19,400)

(ii) Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 (AcG15), Consolidation of Variable Interest Entities ("VIE"), which was effective January 1, 2005. AcG15 provides guidance on identifying entities for which control is achieved through means other than voting rights, and how to determine when and which business enterprises should consolidate the VIE. The adoption of this change in accounting policy did not have a material impact on the consolidated financial statements.

3. SHOPPING CENTRES

(thousands of dollars)	**2005**	2004
Land	**$ 443,440**	$ 312,921
Buildings and improvements	**1,598,619**	1,241,895
	2,042,059	1,554,816
Accumulated amortization	**(102,284)**	(65,566)
	$ 1,939,775	$ 1,489,250

The Company acquired properties as follows:

(thousands of dollars)	2005	2004
Allocation of purchase prices:		
Shopping centres	**$ 400,474**	$ 248,975
Shopping centres under development	**6,410**	—
Deferred costs	**12,794**	9,031
Intangible assets and liabilities	**3,587**	8,066
Total purchase price, including acquisition costs	**423,265**	266,072
Less mortgages assumed on acquisition	**(109,324)**	(90,321)
Difference between principal amount and fair value of assumed mortgages	**(4,633)**	(4,300)
Net cash outlay for acquisitions	**$ 309,308**	$ 171,451
The acquisitions were funded as follows:		
Proceeds from new mortgages	**$ 56,144**	$ 35,111
Cash and credit facilities	**253,164**	136,340
Net cash outlay for acquisitions	**$ 309,308**	$ 171,451

4. LAND AND SHOPPING CENTRES UNDER DEVELOPMENT

During the years ended December 31, 2005 and 2004, the Company acquired land and shopping centres under development as follows:

(thousands of dollars)	2005	2004
Purchase price of land and shopping centres acquired for development or redevelopment	**$ 61,114**	$ 26,759
Less mortgages assumed	**(8,953)**	(2,360)
Net cash outlay for acquisitions	**$ 52,161**	$ 24,399

In addition, during the year ended December 31, 2005, completed developments with a book value of $68.9 million (2004 – $67.1 million) were transferred to shopping centres.

Interest expense and incremental direct internal costs capitalized to development properties during the year ended December 31, 2005 totalled $5.8 million (2004 – $4.5 million) and $2.1 million (2004 – $0.9 million), respectively. The costs to complete projects currently under development are estimated at $72.0 million.

5. DEFERRED COSTS

(thousands of dollars)	2005	2004
Deferred leasing costs and tenant improvements incurred through leasing activities	**$ 43,141**	$ 28,834
Deferred leasing costs recorded on acquisition of shopping centres	**24,364**	11,471
	67,505	40,305
Accumulated amortization	**(14,567)**	(8,421)
	$ 52,938	$ 31,884

Incremental direct internal costs related to leasing activities totalling $2.8 million were capitalized in the year ended December 31, 2005 (2004 — not applicable).

6. INTANGIBLE ASSETS

(thousands of dollars)	**2005**	2004
Lease origination costs	**$ 22,815**	$ 11,863
Above-market in-place leases	**2,285**	1,423
Tenant relationships	**3,679**	1,913
	28,779	15,199
Accumulated amortization	**(4,439)**	(1,691)
	$ 24,340	$ 13,508

7. INVESTMENT IN EQUITY ONE, INC.

(thousands of dollars)	**2005**	2004
Investment in Equity One, beginning of year	**$ 203,988**	$ 211,412
Equity income	**17,475**	18,228
Less dividends received	**(18,221)**	(18,671)
Purchase of Equity One common shares (a)	**15,882**	5,381
Dilution gain	**—**	3,201
Cumulative currency effect	**(7,294)**	(15,563)
Investment in Equity One, end of year (b)	**$ 211,830**	$ 203,988
Weighted average ownership interest in Equity One	**18%**	18%

Equity One, Inc. ("Equity One") (NYSE:EQY), is a self-administered and self-managed real estate investment trust in the United States. 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) In 2005, the Company's U.S. subsidiaries acquired an additional 595,992 (2004 – 218,423) common shares of Equity One at an average price of US$22.27 (2004 – US$18.45) per share through Equity One's dividend reinvestment program.

(b) The closing price on the NYSE of Equity One's common shares at December 31, 2005 was US$23.12 (December 31, 2004 – US$23.73) per share. The book value per share of the Company's investment in Equity One at December 31, 2005 is US$13.65 (December 31, 2004 – US$13.32). At December 31, 2005, 74.9 million (December 31, 2004 – 72.9 million) shares of Equity One were outstanding, of which 13.3 million (December 31, 2004 – 12.7 million) shares were held by the Company.

8. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS

(thousands of dollars)	**2005**	2004
Loans and mortgages receivable from development partners (a)	**$ 14,617**	$ 17,758
Real estate marketable securities (b)	**12,295**	372
	$ 26,912	$ 18,130

(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 invests from time to time in the marketable securities of publicly traded real estate entities.

9. OTHER ASSETS

(thousands of dollars)	**2005**	2004
		(Restated – note 2)
Deferred financing, issue and interest rate hedge costs (net of accumulated amortization of $6,851 (2004 – $7,323))	**$ 13,721**	$ 9,481
Prepaid expenses and deposits related to property operations	**16,311**	11,127
Deposits and costs on properties under option	**5,292**	4,859
Furniture, fixtures and equipment (net of accumulated amortization of $1,082 (2004 — $698))	**2,268**	566
	$ 37,592	$ 26,033

10. AMOUNTS RECEIVABLE

(thousands of dollars)	**2005**	2004
Accounts receivable	**$ 8,138**	$ 9,084
Deferred rent receivables	**8,888**	5,192
	$ 17,026	$ 14,276

11. MORTGAGES AND CREDIT FACILITIES

		2005	
(thousands of dollars)	**Canada**	**U.S.**	**Total**
Fixed rate	**$ 1,080,239**	**$ 63,965**	**$ 1,144,204**
Floating rate	**62,191**	**90,645**	**152,836**
	$ 1,142,430	**$ 154,610**	**$ 1,297,040**

		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

Mortgages and credit facilities are secured by shopping centres and the investment in Equity One.

Canada

Fixed rate financing bears interest at an average fixed rate of 6.5% (2004 – 6.8%) and matures in years ranging from 2006 to 2019. Floating rate financing bears interest at floating rates determined by reference to Canadian prime lenders or bankers' acceptance rates and matures in 2006 and 2007.

United States

Fixed rate financing is comprised of LIBOR swap agreements on a notional US$55 million (2004 – US$35 million) at an average fixed rate of 4.4% (2004 – 4.3%) plus applicable spreads and matures by 2015. Floating rate financing of $73.9 million (US$63.5 million) bears interest at the LIBOR plus 145 basis points and matures in 2010. Floating rate financing of $16.8 million (US$14.4 million) bears interest at U.S. prime. In 2004, floating rate financing bore interest at LIBOR plus 150 – 220 basis points.

Principal repayments of mortgages and credit facilities outstanding as at December 31, 2005 are as follows:

(thousands of dollars)	Canada	U.S.	Total
2006	$ 53,352	$ 23,773	$ 77,125
2007	201,498	6,978	208,476
2008	80,557	6,978	87,535
2009	68,437	6,978	75,415
2010	83,734	109,903	193,637
Thereafter	654,852	—	654,852
Total	$ 1,142,430	$ 154,610	$ 1,297,040

At December 31, 2005, the Company has $157.7 million of undrawn credit facilities, which are secured by certain shopping centres, available for acquisitions, development, and general corporate purposes.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(thousands of dollars)	**2005**	2004
Trade payables and accruals	**$ 48,371**	$ 36,495
Accrued interest	**7,800**	7,766
Dividends payable	**21,194**	15,398
Tenant deposits	**4,556**	3,644
Deferred income and other liabilities	**8,038**	5,480
Below-market in-place leases on acquisitions	**12,157**	3,265
	$ 102,116	$ 72,048

13. UNSECURED DEBENTURES

On June 21, 2005, the Company issued $100 million of 5.08% senior unsecured debentures, maturing on June 21, 2012. Interest is payable semi-annually.

14. CONVERTIBLE DEBENTURES PAYABLE

(thousands of dollars)		**2005**			2004		
Interest Rate					*(Restated – note 2)*		
Coupon	Implicit	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
5.50%	5.97%	**$ 100,000**	**$ 96,990**	**$ 3,015**	$ —	$ —	$ —
7.00%	8.25%	**—**	**—**	**—**	99,999	96,595	8,238
7.25%	9.60%	**—**	**—**	**—**	161,702	151,141	8,279
		$ 100,000	**$ 96,990**	**$ 3,015**	$ 261,701	$ 247,736	$ 16,517

Significant terms of the convertible debentures:

Interest Rate	Conversion Price[1]	Maturity	Earliest Redemption Date
5.50%	$27.00; $28.00 after January 1, 2012	September 30, 2017	January 1, 2012
7.875%	$16.43	January 31, 2007	Redeemed August 2004
7.00%	$22.71	February 28, 2008	Redeemed September 30, 2005
7.25%	$24.40	June 30, 2008	Redeemed March 30, 2005

(1) per common share

On December 19, 2005, the Company issued $100 million of 5.50% convertible unsecured subordinated debentures due September 30, 2017. The debentures require interest payable semi-annually on March 31 and September 30. Holders of the debentures have the right to convert them into common shares at a share price of $27.00 through to December 31, 2011 and $28.00 thereafter to maturity. The Company has the option of repaying the debentures on maturity through the issuance of common shares at 97% of a weighted average trading price of the Company's common shares. The Company also has the option of paying the semi-annual interest through the issue of common shares valued in the same fashion.

The debentures outstanding at December 31, 2004 were unsecured subordinated debentures requiring interest payments semi-annually and were convertible into common shares of the Company at the holders' option until the day prior to the redemption date. In addition, the Company had the option of repaying the debentures by issuing common shares. If the Company chose to issue common shares, it was to be valued at 95% of a weighted average trading price of the Company's common shares. The Company also had the option of paying the interest through the issue of common shares valued in the same fashion as with respect to the repayment of principal on those debentures.

On September 30, 2005, the Company redeemed the outstanding $100 million principal amount of the 7.0% convertible debentures with the issuance of 4,995,205 shares. Prior to the redemption date, holders of $0.045 million principal amount of the 7.0% convertible debentures converted their debentures in accordance with the terms and conditions of the trust indenture. The early redemption of the 7.0% convertible debentures resulted in a non-cash gain of $0.2 million and an increase in contributed surplus of $8.2 million.

On March 31, 2005, the Company redeemed the outstanding $161.7 million principal amount of the 7.25% convertible debentures with the issuance of 8,411,386 shares. Prior to the

redemption date, holders of $0.035 million principal amount of 7.25% convertible debentures converted their debentures in accordance with the terms and conditions of the trust indenture. The early redemption of the 7.25% convertible debentures resulted in a non-cash gain of $0.8 million and an increase in contributed surplus of $8.4 million.

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 $0.9 million and contributed surplus of $2.8 million.

The fair value of the common shares issued to redeem the convertible debentures was based upon the quoted market value of the shares adjusted for price fluctuations, quantities traded, and issue costs.

In 2005, 543,547 (2004 – 1,177,143) common shares were issued to pay interest to holders of convertible debentures.

15. SHAREHOLDERS' EQUITY

(thousands of dollars)	**2005**	2004
		(Restated – note 2)
Share capital (a)	**$ 1,022,701**	$ 673,660
Equity component of convertible debentures (note 14)	**3,015**	16,517
Warrants (c)	**472**	711
Options and deferred share units (d) (e)	**3,004**	1,273
Cumulative currency translation adjustment (g)	**(14,577)**	(13,347)
Contributed surplus (note 14)	**19,513**	2,842
Deficit	**(191,584)**	(133,163)
	$ 842,544	$ 548,493

(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, 2003	35,109,754	$ 422,916
Issuance of common shares (b)	5,366,000	86,866
Conversion of 7.875% convertible debentures (note 14)	3,797,212	65,778
Payment of interest on convertible debentures (note 14)	1,177,143	19,137
Exercise of warrants (c)	5,849,024	76,627
Exercise of options (d)	360,450	4,615
Issue costs, net of income taxes	—	(2,279)
Issued and outstanding at December 31, 2004	**51,659,583**	**673,660**
Issuance of common shares (b)	2,700,000	51,975
Redemption of 7.25% convertible debentures (note 14)	8,411,386	149,891
Conversion of 7.25% convertible debentures (note 14)	1,434	35
Redemption of 7.0% convertible debentures (note 14)	4,995,205	96,425
Conversion of 7.0% convertible debentures (note 14)	1,981	45
Payment of interest on convertible debentures (note 14)	543,547	10,465
Exercise of warrants (c)	299,311	3,771
Exercise of options (d)	601,645	8,592
Dividends reinvested in common shares (f)	1,431,742	29,174
Issue costs, net of income taxes	—	(1,332)
Issued and outstanding at December 31, 2005	**70,645,834**	**$ 1,022,701**

(b) Issuance of Common Shares

On January 26, 2005, 2,700,000 common shares were issued at a price of $19.25 per share, for total gross proceeds of $52.0 million, before commission and issue costs.

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.

(c) Warrants

During 2005, a total of 299,311 (2004 – 4,849,024) share purchase warrants were exercised at $11.80 per share resulting in proceeds to the Company of $3.5 million (2004 – $57.2 million). In addition, in 2004 1,000,000 advisory warrants were exercised at $13.53 per share resulting in proceeds of $13.5 million. The equity component of the warrants exercised, $0.2 million (2004 – $5.9 million), was transferred to share capital.

At December 31, 2005, there were 628,094 outstanding share purchase warrants (2004 – 927,405) 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 3,625,000 (2004 – 2,125,000) common share options to the employees, officers and directors of the Company and third-party service providers. As of December 31, 2005, 1,405,800 (2004 – 395,000) 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 to five years. The outstanding options have exercise prices ranging from $12.42 to $20.80. In 2005, $0.3 million (2004 – $0.2 million) has been recorded as an expense due to the vesting of options granted after January 1, 2003.

	2005		2004	
	Units	**Weighted Average Exercise Price**	Units	Weighted Average Exercise Price
Outstanding, beginning of year	**1,257,550**	**$ 14.49**	1,318,000	$ 13.44
Granted	**501,700**	**$ 20.75**	320,000	$ 16.90
Exercised	**(601,645)**	**$ 14.03**	(360,450)	$ 12.78
Cancelled	**(12,500)**	**$ 15.65**	(20,000)	$ 14.74
Outstanding, end of year	**1,145,105**	**$ 17.46**	1,257,550	$ 14.49
Options vested at end of year	**468,505**	**$ 14.28**	657,133	$ 13.87
Weighted average remaining life (years)	**8.4**		7.2	

During the year ended December 31, 2005, the Company granted 501,700 options (2004 – 320,000 options) which had an approximate fair value of $0.6 million (2004 – $0.3 million) at the time of issue.

The fair value associated with the options issued was calculated using the Black-Scholes Model for option valuation, assuming an average volatility of 15% (2004 – 17%) 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 500,000 common shares has been reserved for issuance under these plans. As at December 31, 2005, 49,854 units (2004 – 32,570 units) have been granted under the Directors Deferred Share Unit Plan, and $0.3 million (2004 – $0.3 million) has been recorded as an expense.

During 2005, 60,000 units (2004 – 120,000 units) were granted under the RSU plans and the number of units issued as a result of dividends declared on the common shares of the Company was 11,223 (2004 – 6,235). At December 31, 2005 – 197,458 units (2004 – 126,235 units) were outstanding under RSU plans. The Company recorded an expense of $1.0 million in 2005 (2004 – $0.5 million) for the grants under the CEO RSU Plan and Employee RSU Plan.

(f) Dividend Reinvestment Plan

The Company adopted a Dividend Reinvestment Plan ("DRIP") in May 2005. Shareholders who hold at least 500 common shares can elect to reinvest cash dividends into additional common shares at a 2% discount to the weighted average trading price of the common shares on the Toronto Stock Exchange for the five consecutive trading days proceeding the dividend payment date.

(g) 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.

The rate of exchange in effect on December 31, 2005 was US$1.00 = Cdn$1.16 (December 31, 2004 – US$1.00 = Cdn$1.20). The average rate of exchange for 2005 was US$1.00 = Cdn$1.21 (2004 – US$1.00 = Cdn$1.30).

16. INTEREST

(thousands of dollars)	**2005**	2004
		(Restated – note 2)
Mortgage and credit facility interest expense	**$ 67,856**	$ 52,462
Unsecured debenture interest expense	**2,710**	—
Convertible debenture interest expense	**9,766**	27,796
Interest expense	**80,332**	80,258
Convertible debenture interest paid in common shares	**(10,465)**	(19,137)
Change in accrued interest	**(34)**	1,930
Implicit interest rates in excess of coupon rate on convertible debentures	**(1,438)**	(3,953)
Interest paid in excess of implicit interest on assumed mortgages	**1,710**	327
Interest capitalized to land and shopping centres under development	**5,830**	4,499
Cash interest paid	**$ 75,935**	$ 63,924

17. AMORTIZATION

(thousands of dollars)	**2005**	2004
		(Restated – note 2)
Shopping centres	**$ 36,854**	$ 29,194
Deferred costs	**8,467**	4,447
Deferred financing fees	**2,096**	2,724
Intangible assets	**2,495**	1,495
Other	**409**	196
	$ 50,321	$ 38,056

18. 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)	**2005**	2004
		(Restated – note 2)
Provision for income taxes on income at the combined Canadian federal and provincial income tax rate of 35.3% (2004 – 35.5%)	**$ 14,921**	$ 10,997
Increase (decrease) in the provision for income taxes due to the following items:		
Large Corporations Tax	**1,631**	2,150
U.S. Operations	**(1,782)**	(1,283)
Non-deductible interest expense	**507**	1,402
Recognition of future tax assets related to convertible debenture redemptions	**(2,657)**	—
Other	**503**	(150)
Income and other taxes	**$ 13,123**	$ 13,116

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

(thousands of dollars)	**2005**	2004
		(Restated – note 2)
Losses available for carry-forward	**$ 16,119**	$ 15,092
Other assets	**153**	828
Canadian and U.S. minimum tax credits	**793**	768
	$ 17,065	$ 16,688

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

(thousands of dollars)	**2005**	2004
Investments	**$ 13,880**	$ 13,880
Shopping centres	**15,085**	8,475
Other	**1,633**	—
	$ 30,598	$ 22,355

At December 31, 2005, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately $42.0 million (2004 – $38 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, 2015.

19. PER SHARE CALCULATIONS

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

(thousands of dollars, except per share amounts)	**2005**	2004
		(Restated – note 2)
Net income	**$ 29,196**	$ 17,887
Contributed surplus on settlement of convertible debentures	**16,671**	2,842
Basic net income available to common shareholders	**45,867**	20,729
Contributed surplus on settlement of convertible debentures	**(16,671)**	—
Interest expense and issue cost amortization, net of tax	**6,175**	—
Gain on redemption of convertible debentures	**(1,018)**	—
Diluted net income	**$ 34,353**	$ 20,729
Denominator		
Weighted average shares outstanding for basic per share amounts	**63,424,822**	44,632,159
Convertible debentures	**4,897,294**	—
Outstanding warrants	**336,307**	795,231
Outstanding options	**234,866**	225,478
Denominator for diluted net income available to common shareholders	**68,893,289**	45,652,868
Basic earnings per share	**$ 0.72**	$ 0.46
Diluted earnings per share	**$ 0.50**	$ 0.45

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	**2005**	2004
Common share options	$ 20.80	**486,700**	—
Common share options	$ 16.85	**—**	45,000
Common share options	$ 16.91	**—**	275,000
Convertible debentures – 5.5%	$ 27.00	**3,703,703**	—
Convertible debentures – 7.875%	$ 16.43	**—**	3,767,790
Convertible debentures – 7.0%	$ 22.71	**—**	4,403,307
Convertible debentures – 7.25%	$ 24.40	**—**	6,627,127

20. 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 $1.5 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 or loans. 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, 2005, there are no outstanding forward exchange contracts.

(d) Fair Values of Financial Instruments

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, 2005 and 2004 due to their short-term nature.

The fair value of the Company's loans, mortgages receivable and marketable securities 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 (2004 – $60 million). The fair value of the 5.08% unsecured debentures is approximately $99 million at December 31, 2005. Based on publicly traded listing prices, as at December 31, 2005, the market value of the principal amount of the convertible debentures was $98 million (2004 – $268 million).

21. 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, 2005, is summarized as follows:

(thousands of dollars)	**Canada**	**U.S.**	**Total**
Property rental revenue	**$ 264,840**	**$ —**	**$ 264,840**
Property operating costs	**99,791**	**—**	**99,791**
Net operating income	**165,049**	**—**	**165,049**
Equity income from Equity One, Inc.	**—**	**17,475**	**17,475**
Interest and other income	**3,794**	**8**	**3,802**
Interest expense	**72,775**	**7,557**	**80,332**
Corporate expenses	**13,604**	**768**	**14,372**
Operating income before amortization	**82,464**	**9,158**	**91,622**
Amortization	**50,178**	**143**	**50,321**
Operating income	**$ 32,286**	**$ 9,015**	**$ 41,301**

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	75,278	4,980	80,258
Corporate expenses	10,785	854	11,639
Operating income before amortization	53,235	12,394	65,629
Amortization	37,919	137	38,056
Operating income	$ 15,316	$ 12,257	$ 27,573

22. JOINT VENTURES

The Company is a participant in 17 (2004 – 15) joint ventures that own land, shopping centres, and shopping centres under development. 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)	**2005**	2004
Assets	**$ 176,791**	$ 129,858
Liabilities	**$ 116,482**	$ 87,107
Revenues	**$ 22,865**	$ 13,763
Expenses	**$ 18,821**	$ 8,006
Cash flow provided by (used in):		
Operating activities	**$ 7,442**	$ 8,334
Investing activities	**$ (54,013)**	$ (41,565)
Financing activities	**$ 28,567**	$ 36,577

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 23 (a)).

23. CONTINGENCIES

(a) The Company is contingently liable, jointly and severally, for approximately $49.3 million (2004 – $30.3 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 $7.3 million (2004 – $10.9 million) issued in the ordinary course of business.

24. SUBSEQUENT EVENTS

(a) The Company invested $56.3 million in the acquisition of interests in two income-producing properties totalling 160,000 square feet, both in Calgary and the purchase of additional space and land parcels at or adjacent to existing properties, adding 101,000 square feet of space at three properties and 2.3 acres of commercial land at two properties.

(b) The Company announced that the interest owing on March 31, 2006 on the 5.5% convertible unsecured subordinated debentures will be paid by the issuance of common shares. The number of common shares to be issued will be calculated by dividing the dollar amount of interest payable by an amount equal to 97% of the volume-weighted average trading price of the common shares of the Company on the Toronto Stock Exchange calculated for the 20 consecutive trading days ending on the five days prior to the payment date.

(c) The Company announced that it will pay a dividend of $0.30 per common share on April 6, 2006 to shareholders of record on March 29, 2006.

25. COMPARATIVE AMOUNTS

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

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. In 2005, the Board undertook a comprehensive review of its corporate governance policies and procedures 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 independent.
- The Board has established two committees comprised entirely of 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 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; orientation and continuing 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
Chairman
First Capital Realty Inc.
North Miami Beach, Florida

Chairman of the Board. Also serves as Chairman and Chief Executive Officer of Equity One, Inc. and Chairman of Gazit-Globe, the Company's largest shareholder.

DORI J. SEGAL
President and Chief Executive Officer
First Capital Realty Inc.
Toronto, Ontario

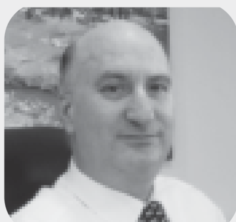
President and Chief Executive Officer. Also President and Director of Gazit-Globe, Director of Equity One, Inc. and Citycon Oyj.

JON HAGAN, C.A.
Consultant – JN Hagan Consulting
Toronto, Ontario

Principal, JN Hagan Consulting, Director of Bentall Capital Corporation and Sunrise Senior Living REIT. Mr. Hagan has over 30 years experience with leading Canadian real estate corporations including Cadillac Fairview Corporation, Empire Company Limited and Cambridge Shopping Centres Limited.

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, 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 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
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Legal practice focussed 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.

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ANNUAL SHAREHOLDERS' MEETING
May 24, 2006
Design Exchange
234 Bay Street
Toronto, Ontario
at 12:30 p.m.

TORONTO STOCK EXCHANGE LISTINGS

Common Shares:	FCR
Warrants:	FCR.WT
5.50% Debentures – CDN	FCR. DB. A
5.50% Debentures – U.S.	FCR. DB. B

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