

2006 Annual Report

FIRST CAPITAL REALTY INC.



York Mills Gardens
York Mills Road &
Leslie Street,
Toronto



Le Campanile
Place du Commerce &
boul. Ile-des-Soeurs,
Montréal



College Square
Baseline Road &
Woodroffe Avenue,
Ottawa



Northgate Centre
137th Avenue &
97th Street,
Edmonton



McKenzie Towne Centre
McKenzie Towne Gate &
High Street SE,
Calgary



The Olive
Cambie Street &
16th Avenue,
Vancouver

LOCATION
LOCATION
LOCATION



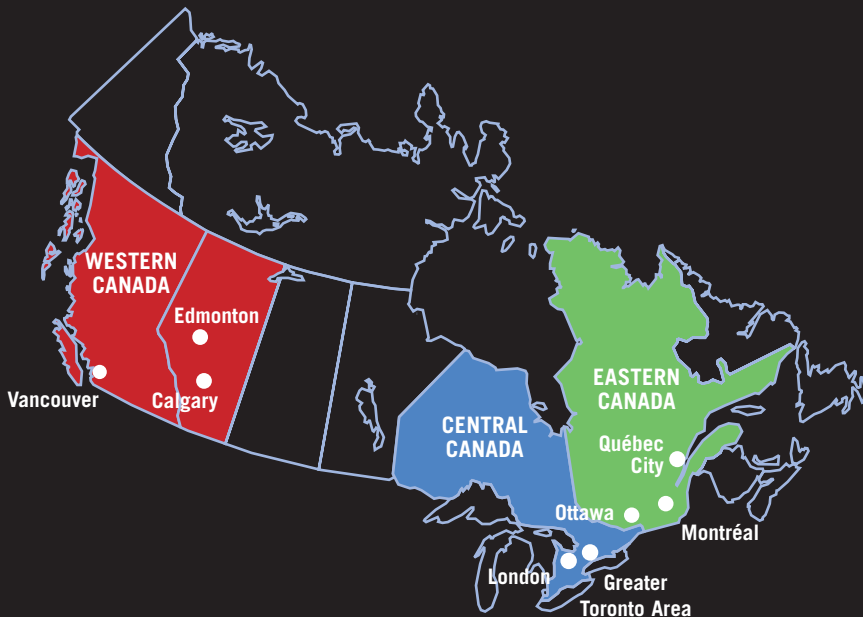
Shopping For Everyday Life.®

**LOCATION
LOCATION
LOCATION**

First Capital Realty [TSX:FCR] is Canada's leading owner, developer and operator of supermarket-anchored neighbourhood and community 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) | 2006 | 2005 |
|----------------------------------|--------------|--------------|
| Enterprise value | \$ 4,080,200 | \$ 3,121,900 |
| Equity market capitalization | \$ 2,091,800 | \$ 1,624,900 |
| Revenues | \$ 332,897 | \$ 268,642 |
| Net operating income | \$ 205,626 | \$ 165,049 |
| Funds from operations (FFO) | \$ 117,186 | \$ 94,666 |
| FFO per diluted share | \$ 1.58 | \$ 1.48 |
| Dividends per share | \$ 1.23 | \$ 1.20 |
| Debt to market capitalization | 43.7% | 44.7% |



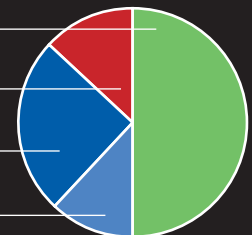
PORTFOLIO BY TENANT

Supermarkets and Drug Stores: 50%

Banks and Government: 12%

Discount Retailers: 25%

Other Retailers and Services: 13%



ANNUAL REPORT CONTENTS

(1) Why Invest in First Capital? (2) 2006 Achievements (3) A Message to Our Shareholders (6) Western Canada (8) Central Canada (10) Eastern Canada (12) Property Management (14) Financial Highlights (15) Management's Discussion and Analysis (56) Shopping Centre Portfolio (60) Consolidated Financial Statements and Notes (88) Corporate Governance (89) Board of Directors (90) Shareholder Information

TOP 30 TENANTS

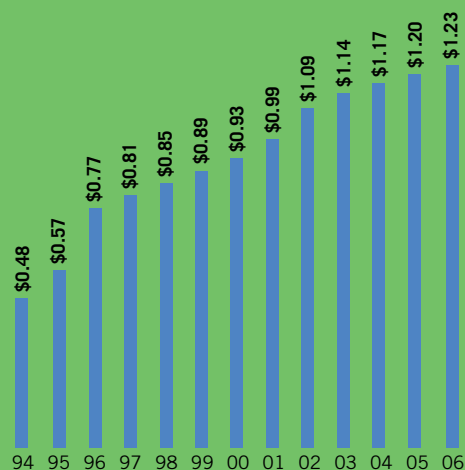
| | | |
|--------------------------------|---------------------|------------------------|
| 1 SOBEYS | 11 ROYAL BANK | 21 WINNERS / HOMESENSE |
| 2 LOBLAWS | 12 CIBC | 22 BLOCKBUSTER |
| 3 SHOPPERS DRUG MART | 13 SCOTIABANK | 23 FUTURE SHOP |
| 4 METRO | 14 STAPLES | 24 DOLLARAMA |
| 5 ZELLERS / HOME OUTFITTERS | 15 H.Y. LOUIE GROUP | 25 LINENS 'N THINGS |
| 6 CANADIAN TIRE | 16 ROGERS | 26 TIM HORTONS |
| 7 CANADA SAFEWAY | 17 SAVE-ON-FOODS | 27 PHARMA PLUS |
| 8 TD CANADA TRUST | 18 REITMANS GROUP | 28 SAQ |
| 9 WAL-MART | 19 CARA OPERATIONS | 29 BANK OF MONTREAL |
| 10 RONA | 20 LCBO | 30 YUM! BRANDS |



Why Invest in First Capital Realty?

We achieved record performance in 2006 as we grew our business and generated solid improvements in all of our operating and financial metrics while maintaining a strong balance sheet.

- Clear and consistent long-term strategy
 - combination of a growth business and a defensive asset class
- High quality portfolio of assets
 - highly disciplined approach to portfolio growth
- Strong financial position
 - moderate leverage; investment grade credit ratings
- Committed and entrepreneurial team
 - aligned with shareholders
- Twelve consecutive years of dividend increases



DIVIDENDS
(\$ per share)

LOCATION LOCATION LOCATION

- 160 Properties*
- 18.9 million square feet of GLA*
- 90% of revenues from urban markets

*as of March 30, 2007



2006 Achievements

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 2006 generated a 23% increase in property revenues and a 25% increase in net operating income.

We Achieved Accretive Growth

Our objective is to generate absolute and accretive growth as measured by FFO and FFO per common share. Despite a highly competitive marketplace we achieved our objectives in 2006 increasing FFO by 24% to \$117.2 million and FFO per diluted share by 7% to \$1.58.

We Enhanced Our Financial Position

Our disciplined and successful growth strategies have been achieved at the same time we have maintained the strength of our balance sheet and financial position. In 2006, our ratio of total debt to market capitalization improved to 43.7% while our pool of unencumbered assets continued to grow.

We Distributed More Cash to Our Shareholders

Common share dividends have increased in each of the past twelve years, rising to \$1.23 per common share in 2006 from \$1.20 per share in 2005. We also met our goal of moderate dividend increases to shareholders while maintaining a conservative 78% FFO payout ratio.



Shopping For Everyday Life®



(left to right) **Karen Weaver**, Chief Financial Officer;
Dori Segal, President and Chief Executive Officer;
Sylvie Lachance, Executive Vice President;
Barbara Silverberg, General Counsel and Corporate Secretary;
Brian Kozak, Vice President, Western Canada



A Message to Our Shareholders

We have built a great business with a talented and hard working group of professionals who have transformed First Capital Realty into Canada's leading owner, developer and operator of "Shopping For Everyday Life" neighbourhood and community shopping centres.

2006 was another year of record results at First Capital Realty. Our total investment in acquisitions, developments and property improvements was more than \$600 million. We grew our business across the country, and we saw improvements in all our operating and financial metrics: net operating income, funds from operations, occupancy, same property NOI and lease renewal rates. This performance is a direct consequence of executing our strategy of focussed and disciplined acquisitions, proactive management and selective development activities.

Impressive isn't it?

Am I impressed or pleased? No, I am not, and let me tell you why.

First, because you, my fellow shareholders, do not pay me to be impressed or to be pleased. The reason you keep me around is so that I get up every morning, forget about everything we

achieved thus far, and figure out what is the best way to continue to make money for us, the Company's shareholders.

On this point, I have good news and bad news. Let me start with the bad news.

Over the last ten years, the real estate industry has been content and comfortable, myself included. Ours was one of the few businesses I am aware of that enjoyed an environment of positive spread investing. This means we had the ability to buy quality real estate assets at favourable and positive spreads over our cost of capital. In other words, every dollar we invested made us money from the first day we made an acquisition, so that each was immediately accretive to our earnings.

Unfortunately, I believe this highly favourable environment is now over as cap rate compression is result-

ing in very thin spreads between the cost of capital and the cost to acquire high-quality, well-located assets.

I am not predicting that property values will go up or down – I do not have a crystal ball. But I do know that, like many other businesses, the real estate industry will now have to create these positive spreads through expertise, knowledge, talent, dedication and hard work. Over the last six years, when properties appreciated in value almost every year, our industry did not need to apply so much energy to make money. Unlike retailers, who lose money whenever they sit on their inventory, our “inventory” of properties appreciated in value. This, in my opinion, allowed us to operate, to a certain degree, without a sense of urgency. However, as I said, in my view this period is now over.

It’s my duty and it is certainly our intention at First Capital Realty to maintain our history of record financial performance each and every year going forward. However, being

successful in meeting this important objective will depend on our ability to continue to increase the value of our assets instead of simply owning them.

So what is the good news?

The good news is that if you have read my letters to shareholders over the last few years, you would have noticed that we have built and prepared our Company, our people, our culture and our strategy so that we are ready for exactly this, the evolving competitive environment.

We have built a great business with a talented and hard working group of professionals who have transformed First Capital Realty into Canada’s leading owner, developer and operator of “Shopping For Everyday Life” neighbourhood and community shopping centres. We are dominant in each of our growing urban markets in this asset class.

Over the last few years, our business model has also evolved, and although we continue to adhere to the same

principle strategy as in the past, we are now focussed more specifically on four major objectives:

1. Same property NOI growth;
2. Development & redevelopment activities;
3. Driving efficiencies and productivity in our operations; and
4. Improving our cost of capital.

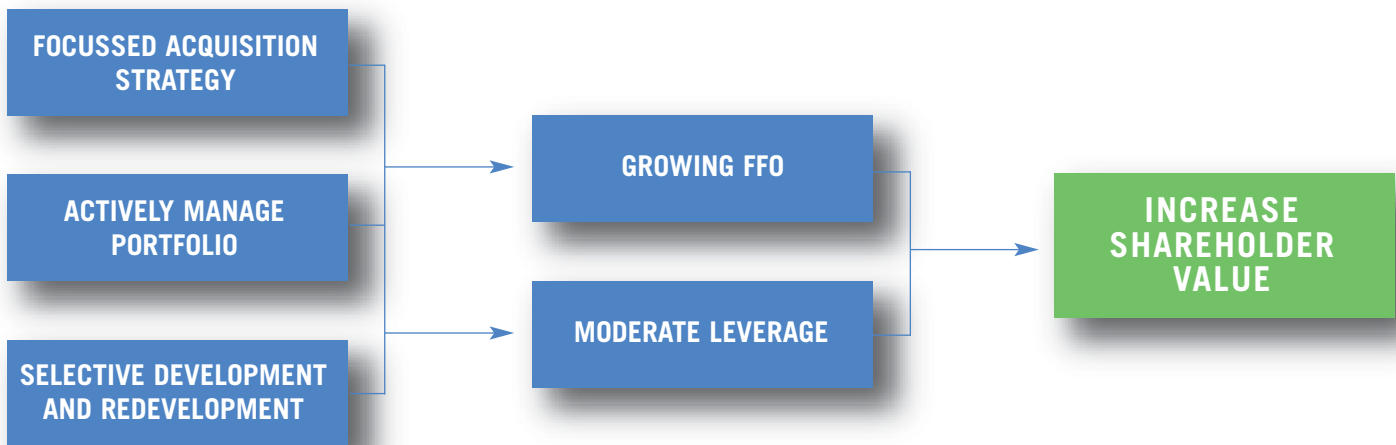
Over the last six years we have tripled the size of our Company. We have a great portfolio, and although we have aggressively accumulated these properties, we have always been very disciplined in terms of where and what we acquire. Building on this strong base, my goal going forward is to continue to grow the business and capture the cost synergies and economies of scale from what will become a much larger company than we are today, while at the same time, putting an emphasis and greater focus on making us more profitable.

In order to achieve this goal, increasing profitability will

come mainly from these four objectives:

1. Same property NOI growth will come to a significant extent from our disciplined acquisition strategy in growth markets with high barriers to entry which we have applied consistently. Many of our properties currently charge much lower rent than market, and we will work to drive these rents up. In addition, a continuous emphasis on tenant mix, tenant quality, property improvements and pristine property management will also help to bring our rents up.

2. We currently have more than 300 acres of land in our pipeline for retail development. Over the last few years, we have collected quality, hand-picked retail development sites that we expect to bring on line at a healthy rate of more than half-a-million square feet each year. In addition, many of the shopping centres we own or will acquire are older, capital starved and underperforming properties that are situated on good pieces of dirt (land). We



Applying a Growth Strategy to a Stable Business

Going Green

First Capital is going “GREEN” on all projects initiated after May 2006. Our Barrymore Building in Toronto, Ontario was originally constructed between 1906 and 1912, and is an excellent example of early twentieth century industrial design. Our objective is to restore and renovate the building to be sustainable, balancing environmental responsibility, resource efficiency, occupant

comfort and well being, and community development with the economics of building construction and operation. On completion, the property will use less energy and water, generate fewer greenhouse gases, and produce less waste. In addition, occupants will be much more comfortable in a building designed for a healthier environment.



will continue to convert these centres into the newest retail formats, with more national and regional tenants that will not only do well themselves, but improve the performance of existing tenants and deliver continuous growth in our rents.

3. Some of the biggest real estate entities in North America, ourselves included, still operate in the same manner they did some years ago when they were much smaller in size. At First Capital Realty, we are going through an examination period where we are looking to refine every part of our business, its functions, and their relations to the other parts of the organization, including our leasing, development, construction, reporting, accounting, legal, and administration processes, as well as job definitions, performance management measures and information technology systems. We will not leave one stone unturned, and we will look at everything we do with an open mind to see whether change is required. We are sure that at the end of this

process we will streamline our operation and become substantially more efficient and productive.

4. Finally, every basis point of improvement in our cost of capital goes directly to the bottom line. On our cost of equity, we are and will continue to be one of the most transparent and open companies in our industry so that market participants will better understand and recognize the true value of this Company. As far as our cost of debt is concerned, over the last two years we have considerably strengthened our balance sheet from every standpoint, and now have investment grade ratings from credit agencies on both sides of the border. We also have approximately one billion dollars of unencumbered assets. We will continue to maintain this good credit profile which, in my opinion, will bear fruit with a consistent reduction in our cost of debt.

Sounds tiring doesn't it?

Now you can probably see why I am not impressed and why I

am not pleased, I'm just too busy. However, I am extremely enthusiastic and excited to see that the direction we are taking is fully supported by our people at all levels of the organization. We all enjoy working together and being part of a growing business with a stimulating working environment and a company-wide stock option plan. Our platform around the country based out of Toronto, Montreal and Calgary has a strong local foothold in each of these regions, central, east and west. This local presence and market expertise is one of the biggest strengths we have in this business. Everyone here is sincerely interested and capable in growing the value of this Company that is so dear to my heart. I'm confident we will be successful in doing so, and that these efforts will translate into healthy returns for First Capital Realty and its shareholders.

In keeping with this goal to grow the value of First Capital Realty, you will be interested to know that as of May 2006, every new project we are developing is “green” i.e.

environmentally-friendly. While from a development perspective this may be a bit “inconvenient”, the “truth” is that this is the way of the future and, for First Capital Realty, it's part of what we believe it takes to be the best shopping centre company in the business.

And isn't the future what it's all about?

To my fellow co-workers who help me deliver a better future for all of us, I would like to first and foremost express my appreciation. 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.

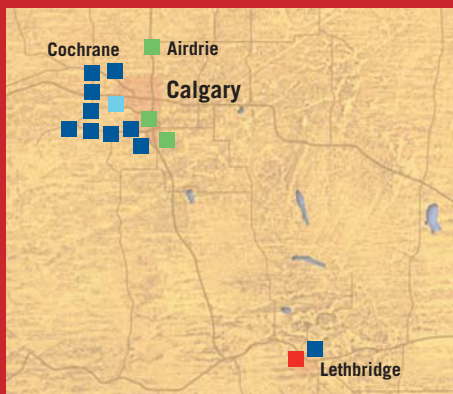
Sincerely,

Dori J. Segal
President and
Chief Executive Officer
April 5, 2007

Western Canada

(left to right starting at the back row)
Michael Lowe, Director of Leasing,
British Columbia; **Terry Evans**,
Managing Director of Leasing,
Western Canada;
Sid Schraeder, Construction
Manager; **Ralph Huizinga**,
Director of Acquisitions
& Development;
David Cox, Regional Director, FCB;
Nancy Brooks, Director, Legal Affairs,
Western Canada





Calgary/Lethbridge Area

- 14 properties
- 1.6 million sq. ft.
- 1 development site



Edmonton/Red Deer Area

- 10 properties
- 2.1 million sq. ft.



Greater Vancouver Area

- 17 properties
- 1.5 million sq. ft.
- 2 development sites

Legend (as at March 30, 2007)

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

2006 was a year of solid growth and performance in Western Canada as we increased our presence in the greater Vancouver area, Vancouver Island, and Calgary.



In 2006 we invested \$201 million in Western Canada, acquiring eleven income producing properties, the remaining 50% interest in another, one property adjacent to an existing development site, as well as two new development sites. In total, we added 861,000 square feet and 8.2 acres of development land to the Western Canada portfolio.

A new area of investment for us this year is on Vancouver Island. As of the year end, we have four well-located shopping centres in the Victoria to Nanaimo corridor and we look to increase our presence in this growth market in the future.

We also increased our presence in Calgary with the purchase of four properties, and in the greater Vancouver area

with the acquisition of the retail component of one mixed-use downtown property and a retail property in Burnaby.

We were also active in Western Canada with our development and property improvement initiatives, investing \$11 million in 2006. With three development initiatives underway, 18,200 square feet of gross leasable area was brought on line. Our Red Deer shopping centre in Red Deer, Alberta now totals 216,000 square feet following completion of a three-year redevelopment and expansion initiative that also included access improvements and façade upgrades. Tenants include Sobeys, Shoppers Drug Mart, Canadian Tire, Mark's Work Warehouse, TD Canada Trust, Rogers Video, Reitmans and Starbucks.

| WESTERN CANADA PORTFOLIO (AS AT DECEMBER 31, 2006) | |
|---|---------|
| NUMBER OF PROPERTIES | 42 |
| PORTFOLIO OCCUPANCY | 94.4% |
| SPACE LEASED IN YEAR (SQ. FT.) | 685,880 |
| AVERAGE IN-PLACE RENT (PER SQ. FT.) | \$15.40 |
| SHOPPING CENTRES | \$794M |
| PROPERTIES UNDER/HELD FOR DEVELOPMENT | \$30.6M |
| LAND ADJACENT TO EXISTING PROPERTIES | \$12.9M |
| DEVELOPMENT LAND PIPELINE (ACREAGE) | 65 |



Central Canada

(left to right)
Ron Rivet, Director of Construction;
Marta Lewycky,
Vice President, Legal Affairs;
Tina Steinberg, Regional Director, FCB;
Derek Hull, Senior Director of
Acquisitions & Development;
Debbie Messervey, Regional Director,
Eastern GTA, FCB; **Evan Williams**,
Managing Director of Leasing, Central
Canada; **Monique Dubord**,
Vice President, Leasing, Central Canada





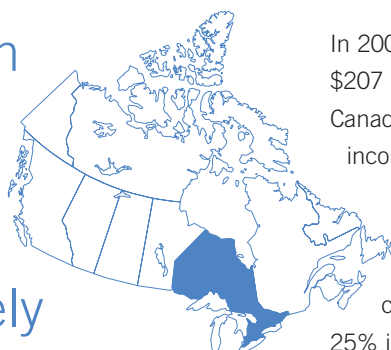
Greater Toronto Area

- 45 properties
- 6.1 million sq. ft.
- 3 development sites

Legend (as at March 30, 2007)

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

We were very active in Central Canada during 2006, investing approximately \$207 million and expanding our presence in the GTA and surrounding urban growth markets.



In 2006 we invested \$207 million in Central Canada, acquiring eight income-producing properties, seven properties adjacent to existing shopping centres, the remaining 25% interest in another property, and one development site. These acquisitions added approximately 674,000 square feet and 4.6 acres of land to the Central Canada portfolio.

enhanced our presence in this strong demographic market while increasing operating efficiencies.

We were also very active in Central Canada with our development activities and property improvements during the year, investing \$53 million. With the three Greenfield developments and eleven redevelopment initiatives underway, 131,000 square feet in new gross leasable area was brought on line. Our Greenfield development at Clairfields Centre in Guelph, Ontario will total 83,500 square feet on completion in 2007. Development is well underway with 29,100 square feet brought on line in 2006. Tenants include Food Basics, Shoppers Drug Mart, TD Bank, Bank of Nova Scotia, Shoeless Joe's and Starbucks.

Key acquisitions in Ontario during the year included Humbertown Shopping Centre in Toronto, Olde Oakville Market Place in Oakville and Sunningdale Village in London, all located in strong demographic neighbourhoods and all anchored by both supermarkets and drug stores. Two additional London acquisitions further

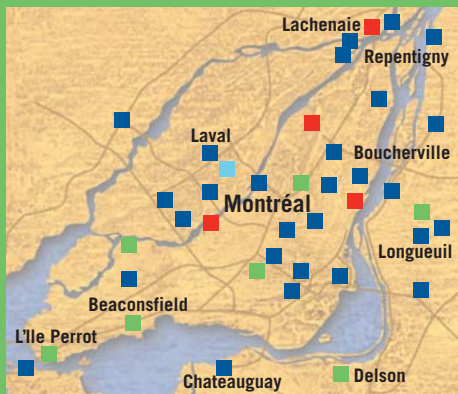
| CENTRAL CANADA PORTFOLIO (AS AT DECEMBER 31, 2006) | |
|---|----------|
| NUMBER OF PROPERTIES | 54 |
| PORTFOLIO OCCUPANCY | 96.4% |
| SPACE LEASED IN YEAR (SQ. FT.) | 923,563 |
| AVERAGE IN-PLACE RENT (PER SQ. FT.) | \$14.20 |
| SHOPPING CENTRES | \$1,158M |
| PROPERTIES UNDER/HELD FOR DEVELOPMENT | \$53.2M |
| LAND ADJACENT TO EXISTING PROPERTIES | \$22.2M |
| DEVELOPMENT LAND PIPELINE (ACREAGE) | 82 |



Eastern Canada

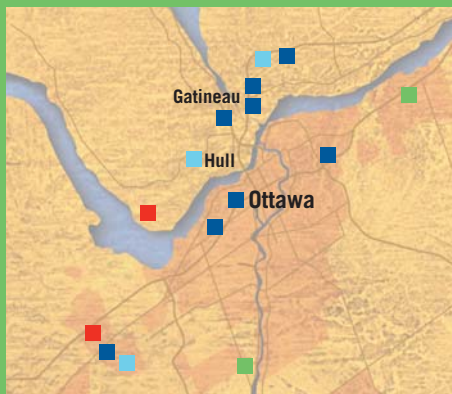
(left to right)
Jacques Boily, Director,
Construction; **Michael Filato**,
Managing Director of Leasing,
Eastern Canada;
Sylvie Laliberte, Director of
Legal Affairs, Eastern Canada;
Angelo Petritsis,
Regional Director, FCB;
Louis Voizard, Vice President,
Eastern Canada;
Francois LeRouzes, Managing
Director;
Anne-Marie Guevremont,
Assistant Regional Manager,
FCB; **Charles Gratton**,
Director of Acquisitions
& Development





Greater Montréal Area

- 39 properties
- 3.9 million sq. ft.
- 1 development site



Ottawa/Hull Area

- 12 properties
- 1.6 million sq. ft.
- 3 development sites



Québec City Area

- 4 properties
- 0.4 million sq. ft.

Legend (as at March 30, 2007)

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

2006 was another year of steady growth in our Eastern Canada portfolio as investments of approximately \$91 million were made in our acquisition activities.



In 2006 we invested \$91 million in Eastern Canada, acquiring six income-producing properties, as well as eleven properties adjacent to existing shopping centres, and three parcels of land for future development. These acquisitions added approximately 485,000 square feet and 45.2 acres of development land to the Eastern Canada portfolio.

The majority of our income-producing property acquisitions during 2006 were made in the greater Montréal area, including a key purchase in Kirkland on the west island situated in a strong demographic neighbourhood, and a property on the south shore of the city close to a major regional commercial node with significant redevelopment opportunities.

We were also very active in Eastern Canada with our development activities and property improvement initiatives, investing a total of \$45 million in 2006. With four Greenfield developments as well as three redevelopment initiatives underway during the year, 227,000 square feet in new gross leasable area was brought on line. Our Greenfield development Carrefour St. David, located in a growing area of Québec City, Québec will total 117,500 square feet on completion in 2008. The shopping centre is anchored by a 42,000 square foot Metro supermarket which has opened on the site and will include a TD Bank and other commercial retail tenants.

| EASTERN CANADA PORTFOLIO (AS AT DECEMBER 31, 2006) | |
|---|----------|
| NUMBER OF PROPERTIES | 62 |
| PORTFOLIO OCCUPANCY | 96.0% |
| SPACE LEASED IN YEAR (SQ. FT.) | 784,627 |
| AVERAGE IN-PLACE RENT (PER SQ. FT.) | \$12.50 |
| SHOPPING CENTRES | \$737.0M |
| PROPERTIES UNDER/HELD FOR DEVELOPMENT | \$49.0M |
| LAND ADJACENT TO EXISTING PROPERTIES | \$10.5M |
| DEVELOPMENT LAND PIPELINE (ACREAGE) | 114 |



Property Management



(left to right)
Maryanne McDougald, Senior Vice President, Operations, FCB;
Peter Papagiannis, President, FCB;
Michael Wilson, Vice President, Finance, FCB

Our proactive management strategy ensures our properties are attractive to quality retailers while providing consumers with an optimal shopping experience. Specifically, we strive to create and maintain the highest standards in parking, lighting, signage, façades, landscaping and access points. Our team of property management professionals across the country are focussed on providing outstanding customer service through day-to-day property management services, and are well positioned for future growth.



FCB Property Management Services

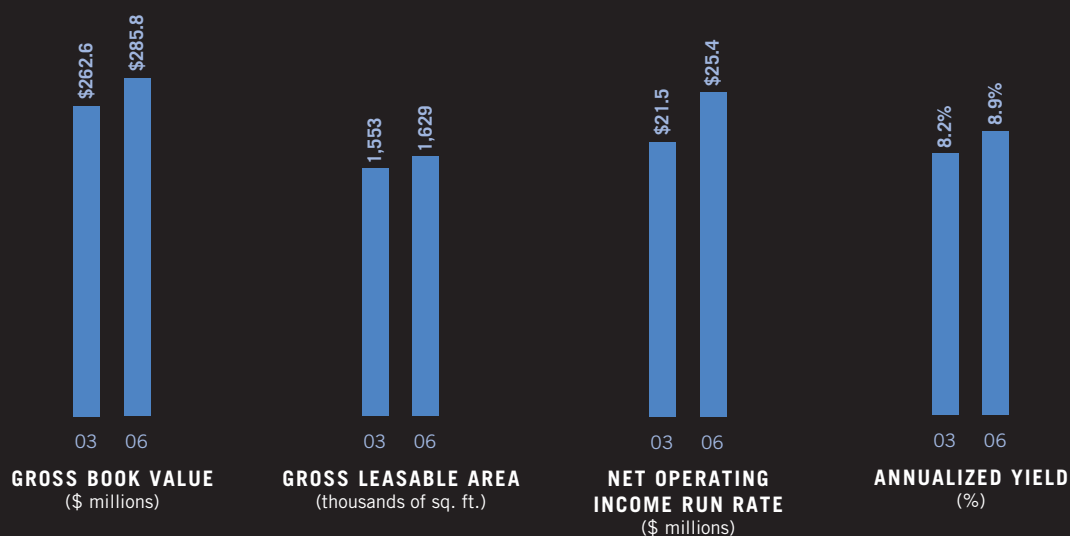
The Company's joint venture (60% economic interest), FCB, provides property management services to our properties. FCB's mission is to *"Be an outstanding property management organization which provides superior service to tenants while achieving professional and personal growth"*. With our experienced property, accounting and administrative personnel coupled with a comprehensive property services and systems infrastructure, FCB provides outstanding service quality today, at a more efficient cost structure for our tenants and is well positioned for efficient growth.

Our property management team, led by 23 property managers through our five

regional offices and supported by a centralized 24/7 Operations Centre, handle over 3,000 tenant relationships across our entire portfolio. The Operations Centre handles over 200 calls per month and is manned by highly trained professionals equipped to handle all day-to-day property management issues plus any emergency matters. Underpinning our property management team is RealSuite, an integrated property management system, designed for complex property management organizations to increase operational efficiency and enhance data sharing.



Growing Cash Flow



Value Creation Activities

Our growth in cash flow on our 2003 income property acquisitions demonstrates our ability to execute our value creation strategies. Highlights of these activities are summarized below:

| PROPERTY ACTIVITY SUMMARY | | | | | | |
|-------------------------------------|------------------------------|--------------------------------------|---------------|-----------------------------|----------------------------|---|
| 2003 Income Property – Acquisitions | Achieve Growth in Rent (PSF) | Acquire Adjacent Site/Space/Interest | Expand Centre | Renovate All/Part of Centre | New Anchor or Major Tenant | Expand Space and Term of Anchor Tenant(s) |
| Bayview Lane Plaza | ✓ | | | U | U | U |
| Centre Maxi Trois Rivières | ✓ | | | | | |
| Credit Valley Town Plaza | ✓ | ✓ | U | | | ✓ |
| Dufferin Corners | ✓ | ✓ | | ✓ | U | ✓ |
| Gloucester City Centre | ✓ | | ✓ | | | |
| Le Campanile | | ✓ | ✓ | | | ✓ |
| Maple Grove Village | ✓ | ✓ | U | ✓ | | ✓ |
| McKenzie Towne Centre | ✓ | | U | | U | |
| Meadowvale Town Centre | ✓ | | ✓ | ✓ | ✓ | |
| Old Strathcona | ✓ | ✓ | | | ✓ | |
| Tuscany Market | ✓ | | | | ✓ | |
| Yonge-Davis Centre | ✓ | | | | | |

✓ – Completed

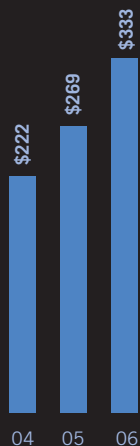
U – Underway

Financial Highlights

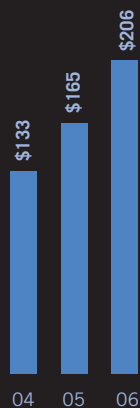


(left to right)
Jack Nguyen, Senior Manager, Internal Controls & Processes;
John Todd, Chief Accounting Officer;
Wissam Francis, Director, Finance

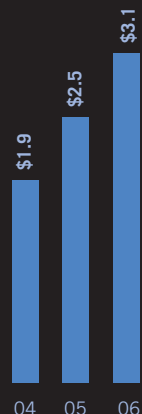
- Revenue increased 24% to \$332.9 million
- Net operating income increased 25% to \$205.6 million
- Funds from operations increased 24% to \$117.2 million
- FFO per diluted share increased 7% to \$1.58
- Invested \$607 million in acquisitions, development activities and property improvements
- Added 2.5 million square feet of gross leasable area
- Debt to market capitalization improved to 43.7% from 44.7%
- Debt to gross total assets stood at 55.1% at December 31, 2006, well below the 65% covenant
- 137 of 158 properties are supermarket and/or drug store-anchored
- Top 30 tenants provide 56% of annual rents, 76% of which are backed by investment grade credit ratings
- Average rent per occupied square foot grew 2.5% to \$13.95
- Occupancy has increased from 95% to 95.7%
- Same property net operating income increased 3.7%



REVENUES
(\$ millions)



NET OPERATING INCOME
(\$ millions)



TOTAL ASSETS
(\$ billions)



DEBT TO MARKET CAPITALIZATION
(%)

Management's Discussion and Analysis



Index

| | |
|----|--|
| 16 | INTRODUCTION |
| 16 | BUSINESS OVERVIEW AND STRATEGY |
| 21 | OPERATIONS |
| 30 | RESULTS OF OPERATIONS |
| 36 | CAPITAL STRUCTURE AND LIQUIDITY |
| 43 | QUARTERLY ANALYSIS |
| 45 | EVENTS SUBSEQUENT TO DECEMBER 31, 2006 |
| 46 | OUTLOOK |
| 47 | SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND POLICIES |
| 48 | SUMMARY OF CHANGES TO SIGNIFICANT ACCOUNTING POLICIES |
| 50 | CONTROLS AND PROCEDURES |
| 50 | RISKS AND UNCERTAINTIES |

Management's Discussion and Analysis

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with First Capital Realty Inc.'s ("First Capital Realty" or the "Company") audited Consolidated Financial Statements and Notes for the years ended December 31, 2006 and 2005. Additional information, including the Company's most recent Annual Information Form, is available on SEDAR's website at www.sedar.com and on the Company's website at www.firstcapitalrealty.ca.

The financial data contained in this document has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all amounts are in Canadian dollars, unless otherwise noted.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (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 anchored by supermarkets, drug stores or discount retail stores in major metropolitan markets in the southern and northeastern United States.

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. To achieve its objectives in the future Management will continue to:

- be focussed and disciplined in acquiring income-producing properties;
- undertake selective development and redevelopment activities; and
- proactively manage the existing shopping centre portfolio.

Income-Producing Portfolio

The Company's portfolio of income-producing shopping centres at December 31, 2006 consisted of interests in 158 properties, including six under development, totalling 18.2 million square feet of gross leasable area.

Eighty-five percent of these shopping centres are anchored by grocery stores and drug stores. The average size of the shopping centres is 115,000 square feet and the size ranges from 20,000 to over 500,000 square feet. The Company operates in key urban markets in the four largest provincial economies in Canada.

The Company's shopping centres are summarized as follows:

| December 31 | 2006 | | | 2005 | | |
|------------------|-------------------------------------|------------------------------------|------------------|----------------------|------------------------------------|------------------|
| | Number of Properties ⁽¹⁾ | Gross Leasable Area (000s sq. ft.) | Percent Occupied | Number of Properties | Gross Leasable Area (000s sq. ft.) | Percent Occupied |
| Ontario | 61 | 8,325 | 96.6% | 53 | 7,275 | 95.7% |
| Quebec | 53 | 4,963 | 95.7% | 47 | 4,388 | 94.2% |
| Alberta | 23 | 3,211 | 94.7% | 18 | 2,688 | 93.9% |
| British Columbia | 17 | 1,485 | 94.0% | 11 | 1,174 | 96.6% |
| Other Provinces | 4 | 182 | 88.8% | 4 | 187 | 90.2% |
| Total | 158 | 18,166 | 95.7% | 133 | 15,712 | 95.0% |

(1) Includes six properties currently under development.

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 its target urban markets of 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 target markets to generate economies of scale and operating synergies.

The Company targets well-located properties in urban markets with strong demographics that Management expects will attract quality tenants with long lease terms. Specifically, Management looks for properties located within dense residential areas where 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 making these tenants desirable for the Company's type of properties.

Management believes that one measure of the quality of a shopping centre is the ability of the centre to attract quality tenants. The Company's top ten tenants and their respective credit ratings, portfolio presence and average remaining lease terms at December 31, 2006 are listed in the chart below:

| Tenant | DBRS Credit Rating | Number of Stores | Square Feet | % of Total Square Feet | Remaining Lease Term in Years |
|---|-----------------------|---------------------|-------------|---------------------------|-------------------------------------|
| Sobeys | BBB(High) | 39 | 1,336,000 | 7.3% | 12 |
| Loblaws | A | 27 | 1,425,000 | 7.8% | 9 |
| Shoppers Drug Mart | A(low) | 42 | 529,000 | 2.9% | 9 |
| Metro | BBB | 26 | 915,000 | 5.0% | 11 |
| Zellers and Home Outfitters | — | 17 | 1,562,000 | 8.6% | 10 |
| Canadian Tire and Mark's Work Wearhouse | A(low) | 19 | 751,000 | 4.1% | 11 |
| Canada Safeway | BBB | 9 | 375,000 | 2.1% | 8 |
| TD Canada Trust | AA(low) | 26 | 138,000 | 0.8% | 6 |
| Wal-Mart | AA | 4 | 473,000 | 2.6% | 13 |
| Rona | BBB(high) | 2 | 257,000 | 1.4% | 17 |
| | | 211 | 7,761,000 | 42.6% | 10 |

At December 31, 2006, the Company's top 30 tenants, including the top ten above, represented 56.0% of the Company's annualized minimum rents and 55.2% of the gross leasable area in the Company's portfolio. A total of 75.5% of those rents in the top 30 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, 45.4% of the Company's total annualized minimum rents are from tenants who have investment grade credit ratings.

Acquisitions of Income-Producing Properties

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. The Company typically makes acquisitions of individual properties that enhance the quality of the portfolio by virtue of their location, demographics and tenant base or that also have redevelopment opportunities. 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.

Management's Discussion and Analysis – continued

During 2006, the Company acquired interests in 25 properties (2005 – 25 properties) consistent with its investment and growth strategies. Through these acquisitions, the Company expanded its presence in its target urban markets in Canada continuing to generate greater economies of scale and operating synergies.

Development and Redevelopment

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 asset value at any given time. Typically new centres are developed after obtaining anchor tenant lease commitments. The Company strategically manages its development activities to reduce development risks. In 2006, the Company completed the development of 376,000 square feet of gross leasable area which was 100% occupied (2005 – 339,000 square feet which was 97% occupied). In addition, a 102,900 square foot grocery store was built by a tenant on one of the Company's properties. First Capital Realty actively develops properties in its target markets across Canada, generating growth in markets where accretive acquisitions are often difficult to find.

Proactive Management

The Company views proactive management of its existing portfolio and newly acquired properties 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 its properties. The Company's proactive management strategies have contributed to continued improvement in occupancy levels and average lease rates throughout the portfolio.

The Company is fully internalized and all important value creation activities including development management, leasing, leasing administration and legal, construction management and tenant co-ordination functions are directly managed and executed by experienced real estate professionals. Employees with these real estate capabilities are located in each of the Company's offices in Toronto, Montreal, Calgary and Vancouver in order to effectively serve the major urban markets where First Capital Realty operates.

The Company has a joint venture with Brookfield LePage Johnson Controls Facility Management Services ("BLJC") to provide basic property management services to its properties. The combination of the experienced property, accounting and administrative personnel from the Company's properties and the property services and system infrastructure from BLJC allows for a higher quality of service, and over time, a more efficient cost structure for the Company's tenants.

Equity One

The Company owns 13.9 million shares (2005 – 13.3 million shares) or approximately 19.1% (2005 – 17.8%) of Equity One, the assets of which are similar to those of the Company. Equity One is a self-managed, real estate investment trust ("REIT") with acquisition, development, redevelopment, capital markets, property management and leasing expertise. Equity One owns or has interests in 173 properties totalling approximately 18.4 million square feet consisting of 166 shopping centres and seven non-retail properties. In addition it owns six development sites and leases and manages 27 properties in Texas.

At December 31, 2006, the Company had interests in 331 properties totalling approximately 36.6 million square feet of gross leasable area including properties held through its investments in Equity One.

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 rates, tenant quality, availability of properties and development sites that meet the Company's acquisition criteria,

financing rates, tenant inducements, maintenance and general capital expenditure requirements, development costs and the economic environment in its markets. The Company quantifies the collective results of all 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 managing the debt to total market capitalization ratio, targeted to range from 45% to 60%, subject to market conditions and opportunities while taking into consideration the total asset value of the Company and its debt covenants.

2006 Performance Compared to Objectives

The Company's objectives for 2006 were to:

- Increase the size of the Company's income-producing portfolio through acquisition and development while maintaining and enhancing asset quality;
- Increase the cash flow from operations through increased rental rates and portfolio occupancy;
- Continue to grow the business while maintaining a responsible and prudent leverage ratio; and,
- Further increase the market capitalization and public float of the Company.

The Company believes it has met or exceeded all of its key 2006 objectives. Key financial and operating metrics which provide measures of performance are summarized below and outlined on the Summary Consolidated Information and Highlights table on the next page.

Summary Consolidated Information and Highlights

The highlights of the growth and financial position of the Company are:

- Gross shopping centre investments increased by 27% since December 31, 2005 while gross leasable area increased by 16%. Portfolio occupancy and rate per occupied square foot also increased during this same period.
- Investments in land and shopping centres under development increased by 31% since December 31, 2005 while the development acreage pipeline increased by 10%.
- Net operating income increased by 24.6% over 2005, and 54.8% over 2004.
- Funds from operations per diluted share increased by 6.8% over 2005 and 11.3% over 2004.
- The leverage of the Company as measured by debt to total market capitalization improved to 43.7% at December 31, 2006 from 44.7% at December 31, 2005.
- Shareholders' equity increased by 8.2% since December 31, 2005 to \$912 million at December 31, 2006.
- The total market capitalization of the Company increased to \$4.1 billion at December 31, 2006 from \$3.1 billion at December 31, 2005.
- The number of common shares outstanding increased by 6.6% to 75.3 million.

Management's Discussion and Analysis – continued

Summary Consolidated Information and Highlights

| <i>(thousands of dollars, except per share amounts)</i> | 2006 | 2005 | 2004 |
|---|---------------------|--------------|--------------|
| Operation Information | | | |
| Gross leasable area (square feet) | 18,166,000 | 15,712,000 | 13,024,000 |
| Number of properties ⁽¹⁾ | 158 | 133 | 104 |
| Development land pipeline (acreage) | 261 | 238 | 139 |
| Portfolio occupancy | 95.7% | 95.0% | 94.1% |
| Rate per occupied square foot | \$ 13.95 | \$ 13.61 | \$ 13.17 |
| Financial Information | | | |
| Gross shopping centre investments ⁽²⁾ | \$ 2,689,005 | \$ 2,124,271 | \$ 1,606,587 |
| Land and shopping centres under development | \$ 178,347 | \$ 136,475 | \$ 74,957 |
| Real estate investments, net book value | \$ 2,943,062 | \$ 2,380,113 | \$ 1,828,452 |
| Total assets | \$ 3,060,879 | \$ 2,469,288 | \$ 1,893,597 |
| Mortgages and credit facilities | \$ 1,388,650 | \$ 1,297,040 | \$ 1,002,965 |
| Senior unsecured debentures payable | \$ 399,813 | \$ 100,000 | \$ — |
| Convertible debentures payable | \$ 192,189 | \$ 96,990 | \$ 247,736 |
| Shareholders' equity | \$ 911,593 | \$ 842,544 | \$ 548,493 |
| Revenues | \$ 332,897 | \$ 268,642 | \$ 221,502 |
| Net operating income – Canada ⁽³⁾ | \$ 205,626 | \$ 165,049 | \$ 132,818 |
| Net income | \$ 45,959 | \$ 29,196 | \$ 17,887 |
| Basic earnings per share | \$ 0.62 | \$ 0.72 | \$ 0.46 |
| Diluted earnings per share | \$ 0.62 | \$ 0.50 | \$ 0.45 |
| Capitalization and Leverage | | | |
| Shares outstanding | 75,297,908 | 70,645,834 | 51,659,583 |
| Market capitalization | \$ 4,080,239 | \$ 3,121,900 | \$ 2,248,000 |
| Debt to market capitalization ⁽⁴⁾ | 43.7% | 44.7% | 55.8% |
| Debt to aggregate assets ⁽⁴⁾ | 55.4% | 54.2% | 63.0% |
| Equity One | | | |
| Dividends from Equity One (Cdn\$) | \$ 33,265 | \$ 18,221 | \$ 18,671 |
| Dividends from Equity One (US\$) | 29,430 | 15,207 | 14,249 |
| Average exchange on dividends (US\$ to Cdn\$) | 1.13 | 1.20 | 1.31 |
| Dividends per common share | | | |
| – regular | \$ 1.23 | \$ 1.20 | \$ 1.17 |
| – special | \$ — | \$ 0.20 | \$ — |
| Dividends | \$ 90,942 | \$ 87,617 | \$ 54,771 |
| Dividends reinvested by shareholders ⁽⁵⁾ | \$ 68,323 | \$ 45,200 | \$ — |

| <i>(thousands of dollars, except per share amounts)</i> | 2006 | 2005 | 2004 |
|---|-------------------|------------|------------|
| Funds from Operations | | | |
| Funds from operations ⁽⁶⁾ | \$ 117,186 | \$ 94,666 | \$ 64,664 |
| Per diluted share | | | |
| – total | \$ 1.58 | \$ 1.48 | \$ 1.42 |
| – before non-recurring items | \$ 1.55 | \$ 1.45 | \$ 1.38 |
| Weighted average diluted shares – FFO | 74,321,824 | 63,995,995 | 45,652,868 |

(1) Includes properties currently under development.

(2) Gross shopping centre investments is comprised of the gross book value of shopping centres, deferred costs and intangible assets less intangible liabilities.

(3) Net operating income is a non-Generally Accepted Accounting Principles (“GAAP”) measure of operating performance. See definition of Net Operating Income.

(4) Calculated in accordance with the indentures governing the issuance of senior unsecured debentures.

(5) 2006 includes \$18.3 million of dividends payable at December 31, 2006 that were reinvested in January 2007 and 2005 includes \$16 million of dividends payable at December 31, 2005 that were reinvested in January 2006.

(6) Funds from operations is a measure of operating performance that is not defined by GAAP. See Definition and Reconciliation of Funds From Operations.

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:

| <i>(\$ millions)</i> | 2006 | 2005 |
|--|-----------------|----------|
| Gross real property investments, January 1 | \$ 2,261 | \$ 1,682 |
| Acquisition of income-producing properties | 404 | 402 |
| Acquisition of additional interests in existing properties | 10 | 5 |
| Acquisition of additional space and land parcels adjacent to existing properties | 62 | 36 |
| Acquisition of land for development | 23 | 37 |
| Development activities and portfolio improvements | 109 | 97 |
| Other | (2) | 2 |
| Gross real property investments, December 31 | \$ 2,867 | \$ 2,261 |
| Gross shopping centre investments | \$ 2,689 | \$ 2,124 |
| Land and shopping centres under development | 178 | 137 |
| Gross real property investments, December 31 | \$ 2,867 | \$ 2,261 |

The Company's operating activities are comprised of acquisitions of income-producing properties, acquisitions of additional space and land parcels at or adjacent to existing income-producing properties, acquisitions of land sites for future development and redevelopment, capital improvements, and leasing at the Company's properties. These operating activities for 2006 and 2005, along with the Company's interest in Equity One, are discussed below.

Management's Discussion and Analysis – continued

Income-Producing Properties

In 2006, the Company acquired interests in 25 income-producing shopping centres comprising 1.8 million square feet, for \$403.5 million. Of these properties, twelve were anchored by supermarkets and two were anchored by drug stores. In addition, seven of the supermarket-anchored centres also included drug stores as additional anchors. These acquisitions are in and around the Company's target urban markets and demonstrate the Company's continuing focus on these urban markets. The acquisitions, all of which were completed on an individual basis, are summarized in the table below.

| Property Name | City | Province | Quarter Acquired | Supermarket- Anchored | Drug Store- Anchored | Gross Leasable Area (Square Feet) | Acquisition Cost (\$ millions) |
|---|-----------|----------|---------------------|--------------------------|-------------------------|---|-----------------------------------|
| Richmond Square | Calgary | AB | Q1 | — | — | 102,000 | \$ 19.6 |
| Fairmount Shopping Centre | Calgary | AB | Q1 | — | — | 58,000 | 10.4 |
| Humbertown Shopping Centre | Toronto | ON | Q1 | ✓ | ✓ | 136,000 | 47.0 |
| TransCanada Centre | Calgary | AB | Q1 | ✓ | ✓ | 186,000 | 38.1 |
| 801 & 861 York Mills | Toronto | ON | Q2 | — | — | 78,000 | 21.6 |
| Woodgrove Crossing | Nanaimo | BC | Q2 | — | — | 60,000 | 14.3 |
| Place Lorraine | Lorraine | QC | Q2 | ✓ | — | 63,000 | 7.3 |
| 1842-1852 Queen Street East | Toronto | ON | Q2 | — | — | 14,000 | 6.2 |
| Kirkland Plaza | Kirkland | QC | Q2 | ✓ | — | 47,000 | 6.7 |
| Woolridge Linens 'N Things | Coquitlam | BC | Q2 | — | — | 38,000 | 12.5 |
| The Olive | Vancouver | BC | Q3 | ✓ | — | 22,000 | 9.4 |
| Queen Mary | Montreal | QC | Q3 | — | — | 6,400 | 1.9 |
| Plaza Actuel | Montreal | QC | Q3 | — | — | 58,000 | 9.3 |
| Cochrane City Centre | Cochrane | AB | Q3 | — | ✓ | 35,000 | 9.1 |
| Hyde Park Plaza | London | ON | Q3 | ✓ | ✓ | 51,800 | 13.0 |
| Stoneybrook Plaza | London | ON | Q3 | ✓ | ✓ | 55,300 | 13.2 |
| 9630 Macleod Trail | Calgary | AB | Q3 | — | — | 126,900 | 24.6 |
| Staples Lougheed | Burnaby | BC | Q3 | — | — | 32,000 | 12.0 |
| Terminal Park | Nanaimo | BC | Q4 | ✓ | — | 31,000 | 8.4 |
| Olde Oakville Market Place | Oakville | ON | Q4 | ✓ | ✓ | 88,000 | 36.6 |
| Sunningdale Centre | London | ON | Q4 | ✓ | ✓ | 72,700 | 24.9 |
| Port Place Shopping Centre | Nanaimo | BC | Q4 | ✓ | ✓ | 146,700 | 20.0 |
| Place Panama | Brossard | QC | Q4 | ✓ | — | 94,200 | 9.3 |
| Kirkland & St. Charles Shopping Centre | Kirkland | QC | Q4 | — | ✓ | 114,200 | 21.0 |
| Other acquisition | Toronto | ON | Q4 | — | — | 67,200 | 7.1 |
| Total | | | | 12 | 9 | 1,783,400 | \$ 403.5 |

Additional Space and Adjacent Land Parcels

In 2006, the Company acquired additional space in eleven existing shopping centres and nine land parcels at or adjacent to existing properties adding 235,100 square feet of gross leasable area and 17.3 acres of commercial land. Total expenditures on these additional interests and land parcels amounted to \$62.4 million. These acquisitions are set out in the tables below.

| Property Name | City | Province | Quarter Acquired | Acreage | Gross Leasable Area (Square Feet) | Acquisition Cost (\$ millions) |
|---|---------------|----------|------------------|-------------|-----------------------------------|--------------------------------|
| Additional space in existing shopping centres | | | | | | |
| Fairway Plaza | Kitchener | ON | Q1 | — | 64,000 | \$ 13.3 |
| Loblaws Plaza | Ottawa | ON | Q1 | — | 22,000 | 5.2 |
| Appleby Mall | Burlington | ON | Q1 | — | 15,000 | 4.1 |
| Plaza Don Quichotte | Ille Perot | QC | Q2 | — | 27,000 | 2.6 |
| Wellington Corners | London | ON | Q2 | — | 4,000 | 0.9 |
| Cochrane City Centre | Cochrane | AB | Q3 | — | 23,500 | 7.6 |
| Carrefour Belvedere (Hooper Building) | Sherbrooke | QC | Q3 | — | 48,000 | 4.0 |
| Steeple Hill West | Pickering | ON | Q3 | — | 14,000 | 2.8 |
| 1005 King Street West (King Liberty) | Toronto | ON | Q4 | — | 8,000 | 4.6 |
| 1029 King Street West (King Liberty) | Toronto | ON | Q4 | — | 5,600 | 1.9 |
| Harvey's Delson (Plaza Delson) | Delson | QC | Q4 | — | 4,000 | 0.8 |
| Total | | | | | 235,100 | \$ 47.8 |
| Land parcels at or adjacent to existing properties | | | | | | |
| Charlemagne Land | Montreal | QC | Q1 | 2.3 | — | \$ 5.5 |
| Centre Commercial Maisonneuve | Montreal | QC | Q1 | 1.5 | — | 3.1 |
| Carrefour des Forges | Drummondville | QC | Q1 | 0.8 | — | 0.6 |
| 355-359 & 349-351 St. Edouard | Drummondville | QC | Q2 | 0.2 | — | 0.4 |
| 19970 – 80th Avenue | Langley | BC | Q2 | 4.1 | — | 2.4 |
| Carrefour St. David | Beauport | QC | Q3 | 0.4 | — | 0.8 |
| Charlemagne Land | Montreal | QC | Q3 | 1.3 | — | 0.5 |
| 68 Livingston | Grimsby | ON | Q4 | 0.1 | — | 0.3 |
| Cowpland Drive | Ottawa | ON | Q4 | 6.6 | — | 1.0 |
| Total | | | | 17.3 | — | \$ 14.6 |

Additional Interests in Existing Properties

In 2006, the Company acquired the remaining interests of 50% and 25% in Old Strathcona, Edmonton, Alberta and Dufferin Corners, Toronto, Ontario, respectively, for a total cost of \$9.8 million.

Management's Discussion and Analysis – continued

Land Sites for Development

The Company invested \$22.6 million in the acquisition of six land sites, comprising 40.7 acres of commercial land for future development, as set out in the table below.

| Property Name | City | Province | Quarter Acquired | Acreage | Acquisition Cost (\$ millions) |
|--------------------------------------|------------|----------|------------------|-------------|--------------------------------|
| Faubourg des Prairies ⁽¹⁾ | Montreal | QC | Q3 | 7.6 | \$ 3.0 |
| Laval Place Fredo ⁽¹⁾ | Laval | QC | Q3 | 0.8 | 1.5 |
| Abbotsford Lands | Abbotsford | BC | Q4 | 3.9 | 7.1 |
| Kanata Lands ⁽²⁾ | Ottawa | ON | Q4 | 23.8 | 6.0 |
| South Fraser Gate | Abbotsford | BC | Q4 | 0.2 | 0.5 |
| McVean Land | Brampton | ON | Q4 | 4.4 | 4.5 |
| Total | | | | 40.7 | \$ 22.6 |

(1) Acquired prior to zoning process

(2) 50% interest

Impact of 2006 Acquisitions on Continuing Operations

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

Management believes that the 2006 acquisitions are in line with its business strategy and will support the achievement of the Company's objectives over the long term.

2005 Acquisitions

In 2005, First Capital Realty expanded its portfolio through various acquisitions as set out below.

The Company acquired interests in 25 income-producing shopping centres, comprising 2.4 million square feet, for \$401.9 million. Of these properties, 19 were anchored by supermarkets and three were anchored by drug stores. Nine of the supermarket-anchored centres also included drug stores as additional anchors. The acquisitions are summarized in the following table.

| Property Name | City | Province | Quarter Acquired | Supermarket-Anchored | Drug Store-Anchored | Gross | Acquisition Cost (\$ millions) |
|--------------------------------|---------------|----------|------------------|----------------------|---------------------|-----------------------------|--------------------------------|
| | | | | | | Leasable Area (Square Feet) | |
| Grimsby Square Shopping Centre | Grimsby | ON | Q1 | ✓ | ✓ | 126,000 | \$ 13.1 |
| Hooper Building | Sherbrooke | QC | Q1 | ✓ | ✓ | 92,000 | 11.4 |
| Pemberton Plaza | Vancouver | BC | Q1 | ✓ | — | 78,000 | 19.1 |
| Kingsland Plaza | Calgary | AB | Q1 | — | ✓ | 45,000 | 9.0 |
| Broadmoor Shopping Centre | Richmond | BC | Q1 | ✓ | — | 43,000 | 14.5 |
| Adelaide Shoppers | London | ON | Q1 | — | ✓ | 19,000 | 5.6 |
| Towerlane Mall | Airdrie | AB | Q2 | ✓ | ✓ | 170,000 | 20.1 |
| Fairway Plaza | Kitchener | ON | Q2 | ✓ | — | 169,000 | 40.5 |
| Langley Mall | Langley | BC | Q2 | ✓ | — | 132,000 | 13.6 |
| Harbour Front Centre | Vancouver | BC | Q2 | — | — | 127,000 | 34.3 |
| Place Michelet | Montreal | QC | Q2 | ✓ | — | 59,000 | 13.5 |
| 1331 Main Street | Vancouver | BC | Q2 | — | — | 55,000 | 5.7 |
| Uplands Common | Lethbridge | AB | Q2 | ✓ | — | 53,000 | 11.1 |
| Carrefour des Forges | Drummondville | QC | Q2 | ✓ | — | 50,000 | 7.3 |
| College Square ⁽¹⁾ | Ottawa | ON | Q3 | ✓ | ✓ | 388,000 | 39.3 |
| Langley Crossing | Langley | BC | Q3 | — | — | 129,000 | 29.1 |
| Bowmanville Mall | Bowmanville | ON | Q3 | ✓ | ✓ | 115,000 | 13.6 |
| Chartwell Shopping Centre | Toronto | ON | Q3 | ✓ | ✓ | 85,000 | 19.0 |
| Terra Nova Shopping Centre | Richmond | BC | Q3 | ✓ | — | 73,000 | 24.7 |
| Galleries des Chesnaye | Lachenaie | QC | Q3 | ✓ | ✓ | 57,000 | 7.1 |
| Burlingwood Shopping Centre | Burlington | ON | Q3 | ✓ | ✓ | 46,000 | 9.5 |
| Coronation Mall | Duncan | BC | Q4 | ✓ | — | 58,000 | 11.1 |
| Loblaws Plaza | Ottawa | ON | Q4 | ✓ | — | 106,000 | 15.9 |
| Lakeview Plaza | Calgary | AB | Q4 | ✓ | ✓ | 64,000 | 11.1 |
| Verdun Shoppers | Montreal | QC | Q4 | — | ✓ | 19,000 | 2.7 |
| Total | | | | 19 | 12 | 2,358,000 | \$ 401.9 |

(1) 50% interest

Additional Space and Adjacent Land Parcels

The Company acquired additional space in four existing shopping centres and eleven 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.

Management's Discussion and Analysis – continued

| Property Name | City | Province | Quarter Acquired | Acreage | Gross Leasable Area (Square Feet) | Acquisition Cost (\$ millions) |
|--|-------------|----------|---------------------|---------|---|-----------------------------------|
| Additional space in existing shopping centres | | | | | | |
| Towerlane Mall | Airdrie | AB | Q2 | — | 38,000 | \$ 4.0 |
| Pemberton Plaza | Vancouver | BC | Q2 | — | 8,000 | 3.4 |
| 1071 King Street West (King Liberty) | Toronto | ON | Q3 | — | 27,000 | 3.8 |
| Place Seigneuriale (La Belle Province) | Quebec City | QC | Q4 | — | 3,000 | 0.9 |
| Total | | | | — | 76,000 | \$ 12.1 |

Land parcels at or adjacent to existing properties

| | | | | | | |
|------------------------------------|---------------|----|----|------|---|---------|
| Promenades Levis | Levis | QC | Q1 | 3.5 | — | \$ 2.4 |
| Brantford Mall | Brantford | ON | Q1 | 0.3 | — | 0.3 |
| Steeple Hill Shopping Centre | Pickering | ON | Q1 | 0.3 | — | 0.2 |
| Carrefour des Forges | Drummondville | QC | Q2 | 1.0 | — | 0.4 |
| Grimsby Square Shopping Centre | Grimsby | ON | Q2 | 0.2 | — | 0.4 |
| University Mall | Windsor | ON | Q3 | 9.5 | — | 1.6 |
| Plaza Delson | Delson | QC | Q3 | 1.0 | — | 0.4 |
| Chartwell Shopping Centre | Toronto | ON | Q4 | 3.9 | — | 4.9 |
| Carrefour St. David ⁽¹⁾ | Quebec City | QC | Q4 | 6.2 | — | 2.6 |
| King Liberty Village | Toronto | ON | Q4 | 1.0 | — | 9.8 |
| Grimsby Square Shopping Centre | Grimsby | ON | Q4 | 0.6 | — | 1.1 |
| Total | | | | 27.5 | — | \$ 24.1 |

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

Additional Interest in Existing Property

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

2005 Land Sites for Development

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

| Property Name | City | Province | Quarter Acquired | Acreage | Acquisition Cost (\$ millions) |
|--|-------------|----------|---------------------|---------|-----------------------------------|
| North Oakville Land | Oakville | ON | Q2 | 7.7 | \$ 7.0 |
| Morningside Crossing | Toronto | ON | Q3 | 13.4 | 13.0 |
| Carrefour du Plateau-Grives ⁽¹⁾ | Hull | QC | Q3 | 32.9 | 6.7 |
| Bow Valley Crossing ⁽¹⁾⁽²⁾ | Calgary | AB | Q3 | 48.4 | 4.4 |
| Carrefour St. David | Quebec City | QC | Q3 | 10.5 | 4.0 |
| Jericho Centre | Langley | BC | Q3 | 2.2 | 1.6 |
| Total | | | | 115.1 | \$ 36.7 |

(1) Acquired prior to zoning process

(2) 50% interest

2006 Development Activities

Development is completed selectively, 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 2006, the Company developed 478,900 square feet of retail space as detailed below.

| Property Name | City | Province | Square Feet | Major Tenants |
|---|--------------|----------|----------------|--|
| Charlemagne | Charlemagne | QC | 139,000 | Rona |
| King Liberty Village | Toronto | ON | 43,000 | First Capital Realty, Kasian Architecture |
| Carrefour St. David | Beauport | QC | 42,000 | Metro |
| Clairfields Commons | Guelph | ON | 34,000 | Shoppers Drug Mart, Scotiabank, TD Canada Trust |
| Promenades Levis | Levis | QC | 25,000 | Pharmacie Jean Coutu, Bank of Montreal |
| Bowmanville Mall | Bowmanville | ON | 23,000 | A&P |
| Strandherd Crossing | Ottawa | ON | 13,000 | Dollar Blitz, Starbucks |
| McLaughlin Corners | Brampton | ON | 11,000 | CitiFinancial, Hasty Market |
| West Lethbridge Town Centre | Lethbridge | AB | 7,000 | Scotiabank |
| Red Deer Village | Red Deer | AB | 6,000 | Mark's Work Wearhouse |
| Parkway Centre | Peterborough | ON | 5,000 | Montana's |
| Chemong Park Plaza | Peterborough | ON | 5,000 | TD Canada Trust |
| Other pads and expansions at 5 properties | | | 23,000 | |
| | | | 376,000 | |
| Eagleson Cope Drive | Ottawa | ON | 102,900 | Loblaws |
| Total | | | 478,900 | |

The 2006 development of 478,900 square feet compares with 339,000 square feet developed in 2005. Developed gross leasable area of 376,000 square feet was 100% occupied at December 31, 2006, at an average rate of \$16.35 per square foot. In addition, a 102,900 square foot Loblaws was built by the tenant on the Company's Eagleson Cope Drive property in Ottawa, Ontario. These successfully completed development projects illustrate the potential future value of investments in ongoing development initiatives that are not yet generating income, but are expected to contribute significantly to the growth of the Company.

At December 31, 2006, the Company owned 261 acres of land sites and parcels available for future development, compared with 238 acres in 2005. The pipeline of development acreage has increased as a result of new acquisitions in excess of the development acreage coming on line during the year. This inventory provides the Company with opportunities for growth in its existing portfolio and new development in its target urban markets. The Company's development sites and properties as at December 31, 2006 are summarized as follows:

| | Number of Sites/Properties | Acreage | Developable Square Feet |
|---|-------------------------------|------------|----------------------------|
| Properties under development | 6 | 42 | 468,300 |
| Square footage under development in existing properties | 8 | 17 | 222,000 |
| Land parcels adjacent to/part of existing properties | 34 | 87 | 919,600 |
| Land sites held for future development | 11 | 174 | 1,689,000 |
| Total | 59 | 320 | 3,298,900 |

Management's Discussion and Analysis – continued

In 2006, the Company invested a total of \$108.5 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, 2006, the Company has a number of shopping centres under redevelopment or expansion.

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 property under development.

2005 Development Activities

In 2005, the Company developed 339,000 square feet of retail space in the following shopping centres:

| Property Name | City | Province | Square Feet | Major Tenants |
|----------------------------|-------------|----------|----------------|---|
| 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 339,000 square feet completed was 97% occupied at December 31, 2005 at an average rate of \$18.33 per square foot.

At December 31, 2005, the Company had 238 acres of land sites and parcels available for development. The Company's development sites and properties as at December 31, 2005 are summarized as follows:

| | Number of Sites/Properties | Acres | Developable Square Feet |
|---|-------------------------------|------------|----------------------------|
| Properties under development | 6 | 38 | 503,000 |
| Square footage under development in existing properties | 7 | 6 | 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 | 282 | 2,951,500 |

The Company invested a total of \$97 million in its active development projects and in certain improvements to its existing shopping centre portfolio.

The Company also had a number of shopping centres in various stages of redevelopment or expansion at December 31, 2005.

Leasing and Occupancy

In 2006, net new leasing, including new development space coming on line, totalled 509,500 square feet compared to 490,000 square feet in 2005. This net new leasing will generate additional annual minimum rent of approximately \$7.6 million as compared to \$8.8 million in 2005. Lease renewals on 1,446,000 square feet were completed in 2006, as compared to 594,000 square feet of space in 2005. The renewals signed in 2006 will generate additional annual minimum rent 5.5% greater than the expiring rent, which compares to 2005 renewals signed at 4.9% greater than expiring rent.

With the impact of leasing during the year in the existing portfolio and development space, new acquisitions and increases from contractual rent steps, the average rate per occupied square foot increased to \$13.95 at December 31, 2006 as compared with \$13.61 at December 31, 2005.

The occupancy level of the portfolio, including properties currently under redevelopment, was 95.7% of total gross leasable area as at December 31, 2006 as compared with 95.0% at December 31, 2005.

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

Equity One, Inc. (“Equity One”)

Equity One is traded on the New York Stock Exchange (“NYSE”) under the ticker symbol EQY. Equity One is a leading owner and operator of neighbourhood and community shopping centres anchored by supermarkets, drug stores and national value retailers in the southern and northeastern United States metropolitan markets. Based in North Miami Beach, Florida, Equity One is a self-managed REIT with acquisition, development, redevelopment, capital markets, property management and leasing expertise.

Equity One Property Portfolio

Equity One owns or has interest in 173 properties comprising approximately 18.4 million square feet consisting of 166 shopping centres and seven non-retail properties. In addition it owns six development parcels and also leases and manages 27 properties in Texas.

The investment in Equity One provides the Company with both geographic and property rental revenue diversification in growing urban markets in the United States. Fifty-one percent of the total square footage owned by Equity One is located in Florida, with the balance of the properties in eleven 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 amounted to \$229 million and \$432 million (2005 – \$212 million and \$359 million), respectively, at December 31, 2006, using the year-end exchange rate of \$1.17 (2005 – \$1.16). First Capital Realty, through its wholly-owned U.S. subsidiaries, owned 13.9 million shares of Equity One as of December 31, 2006 (2005 – 13.3 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 with additional investments in shares. At December 31, 2006, the Equity One shares had a market value of US\$371 million or US\$26.66 per share. Equity One has paid dividends for 35 consecutive quarters, providing the Company with a source of stable cash income. At December 31, 2006, US\$130.4 million of debt was outstanding with the majority of the shares held as security.

Management's Discussion and Analysis – continued

RESULTS OF OPERATIONS

Funds from Operations

In Management's view, funds from operations ("FFO") is a commonly accepted and meaningful indicator of financial performance in the real estate industry. First Capital Realty believes that financial analysts, investors and shareholders are better served when the clear presentation of comparable period operating results generated from FFO disclosure supplements Canadian generally accepted accounting principles ("GAAP") disclosure. The Company's method of calculating FFO may be different from methods used by other corporations or REITs and accordingly, may not be comparable to such other corporations or REITs. FFO is presented to assist investors in analyzing the Company's performance. 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 GAAP net income for the purpose of evaluating operating performance.

Funds from Operations – RealPac Recommendations

First Capital Realty calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). 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 Company's funds from operations are calculated below:

| <i>(thousands of dollars, except per share amounts)</i> | 2006 | 2005 |
|--|------------|------------|
| Net income for the year | \$ 45,959 | \$ 29,196 |
| Add (deduct): | | |
| Amortization of shopping centres, deferred costs and intangible assets | 64,252 | 47,816 |
| Gain on disposition of real estate | — | (202) |
| Current income tax on Equity One special dividend from gain on real estate | 3,621 | — |
| Equity income from Equity One | (32,696) | (17,475) |
| Funds from operations from Equity One | 22,457 | 26,275 |
| Future income taxes | 13,593 | 9,056 |
| Funds from operations | \$ 117,186 | \$ 94,666 |
| Per diluted share | | |
| – total | \$ 1.58 | \$ 1.48 |
| – before non-recurring items | \$ 1.55 | \$ 1.45 |
| Weighted average diluted shares – FFO | 74,321,824 | 63,995,995 |

Funds from Operations per Diluted Share

Funds from operations for the year ended December 31, 2006 totalled \$117.2 million, or \$1.58 per diluted common share, compared to \$94.7 million, or \$1.48 per diluted common share, in 2005. The increase in FFO is primarily due to the Company's income-producing property acquisitions and development projects coming on line, partially offset by a decline in FFO from Equity One and increased interest and corporate expenses. FFO includes the effects of non-recurring items as set out below.

Non-recurring items in FFO for the year ended December 31, 2006 includes gains on the sale of marketable securities of \$3.7 million and income from non-recourse cash flow participation loans of \$0.5 million, offset by unrealized losses on certain interest rate swaps of \$0.4 million, a loss on early extinguishment of debt at Equity One of \$0.4 million, and severance, write-off of abandoned transactions and management transition costs at Equity One of \$1.6 million. Non-recurring items in FFO for the year ended December 31, 2005 included gains on the redemptions of convertible debentures of \$1.0 million and a \$0.6 million non-recurring gain from Equity One.

Net Operating Income

Net operating income is defined as property rental revenue less property operating costs. 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 ("NOI") should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP.

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|-------------------|------------|
| Same property | \$ 135,132 | \$ 130,291 |
| 2005 Acquisitions | 30,195 | 16,260 |
| 2006 Acquisitions | 13,121 | — |
| Development and redevelopment | 19,697 | 13,690 |
| Revenue recognized on a straight-line basis | 5,839 | 3,677 |
| Amortization of above- and below-market leases | 1,642 | 1,131 |
| Net operating income | \$ 205,626 | \$ 165,049 |
| Property rental revenue | \$ 325,980 | \$ 264,840 |
| Property operating costs | 120,354 | 99,791 |
| | \$ 205,626 | \$ 165,049 |

Net operating income increased in 2006 by \$40.6 million to \$205.6 million. Same property NOI (includes properties where the Company's ownership and investment are substantially the same in the two calendar years) grew by 3.7%, or \$4.8 million, during the year.

For the year ended December 31, 2006, revenue recognized on a straight-line basis totalled \$5.8 million as compared to \$3.7 million in 2005. For 2004 and 2005, the Company had additional allowances for doubtful accounts which decreased recognition of straight-line rents with respect to those years.

In the normal course of operations, the Company receives payments from tenants as compensation for the termination of leases. In 2006, the Company received lease termination payments of \$1.0 million or 0.3% of total property revenues as compared to \$0.5 million, or 0.2% of total property revenues, in 2005. Lease termination income was higher in 2006 due partially to termination payments totalling \$0.5 million received from three tenants. Lease termination income has ranged from 0.2% to 2% of total property revenues over the past five years. The lease termination payments are included in same property NOI.

The ratio of net operating income to gross rental revenues in 2006 of 63.1% reflects the inclusion of straight-line rents and market rent adjustments of \$7.5 million. Excluding these items, the NOI margin is approximately 62.2%. Similarly, the 2005 ratio of net operating income to gross property revenues of 62.3% reflects the inclusion of straight-line rent and market rent adjustment amounts of \$4.8 million in NOI. Excluding these items, the NOI margin was approximately 61.6% in 2005. Overall, the annualized NOI margin has increased 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 received dividends from Equity One of US\$29.4 million or US\$2.20 per share during the year ended December 31, 2006 compared to US\$15.2 million or US\$1.17 per share in the year ended December 31, 2005. The Canadian dollar equivalent amounts are \$33.3 million and \$18.2 million, respectively.

Management's Discussion and Analysis – continued

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. For the year ended December 31, 2006, equity income from Equity One increased to \$32.7 million from \$17.5 million in the prior year. This reflects the Company's share in the gain (approximately \$19.4 million, net of taxes) on the sale of its Texas portfolio (as discussed below) and other properties, offset by management transition and abandoned transaction costs incurred by Equity One.

The increase in equity income and dividends in 2006 is primarily from the sale by Equity One of 29 Texas properties to a third-party investor in two transactions which occurred in the second and fourth quarters. Equity One realized net proceeds of approximately US\$329 million from the transaction and continues to lease and manage the properties. Equity One recorded a gain of approximately US\$111 million, and paid a special dividend of US\$1.00 per common share in the second quarter of 2006, which is included in dividends received of \$2.20 per share.

Interest and Other Income

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|-----------------|-----------------|
| Gains on sales of marketable securities | \$ 4,221 | \$ 89 |
| Interest, dividend and distribution income from marketable securities and cash investments | 1,335 | 1,747 |
| Gains on land and property sales | 137 | 202 |
| Unrealized losses on certain interest rate swaps | (389) | — |
| Interest income from development loans | 683 | 1,564 |
| Income from non-recourse cash flow participation loans | 538 | 123 |
| Other income | 392 | 77 |
| Total interest and other income | \$ 6,917 | \$ 3,802 |

Interest Expense

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|------------------|------------------|
| Mortgages and credit facilities | | |
| Secured by Canadian properties | \$ 64,944 | \$ 60,299 |
| Secured by investment in Equity One and other investment | 9,734 | 7,557 |
| | 74,678 | 67,856 |
| Senior unsecured debentures and convertible debentures | 19,131 | 12,476 |
| Total interest expense | \$ 93,809 | \$ 80,332 |

The increase in interest expense on mortgages and credit facilities in 2006 was a result of an increase in the gross debt required to fund the growth of the property portfolio. During 2005 and 2006, a larger percentage of this additional debt was comprised of senior unsecured debentures. The Company's ratio of debt to aggregate assets has increased from 54.2% at December 31, 2005 to 55.4% at December 31, 2006.

Interest Expense on Mortgages and Credit Facilities – Canada

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|------------------|------------------|
| Interest expense | \$ 64,944 | \$ 60,299 |
| Interest capitalized | 8,776 | 5,830 |
| Interest paid in excess of implicit interest on assumed mortgages | 2,323 | 1,710 |
| Change in accrued interest | (429) | (1,057) |
| Total Canadian mortgage and credit facilities interest paid | \$ 75,614 | \$ 66,782 |

The increase of \$8.8 million in interest paid on Canadian mortgages and credit facilities in 2006 over 2005 is the result of increased borrowing by the Company to fund acquisitions and development activities in Canada. The effect of the 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 6.5% at December 31, 2005 to 6.4% at December 31, 2006, as rates on new financings were lower than those on existing debt. The interest capitalized to properties under development in 2006 increased over 2005 as a result of increased development activity during the year.

Interest Expense on U.S. Credit Facilities

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|------------|------------|
| Ending debt balance – December 31 (US\$) | \$ 139,625 | \$ 132,941 |
| Interest expense (US\$) | \$ 8,587 | \$ 6,261 |
| Average exchange rate | \$ 1.13 | \$ 1.21 |
| Interest expense (Cdn\$) | \$ 9,734 | \$ 7,557 |
| Change in accrued interest | (623) | (961) |
| Total US\$ credit facilities interest paid | \$ 9,111 | \$ 6,596 |

Measured in U.S. currency, the interest expense on the U.S. credit facilities increased by 37.2% in 2006 from 2005 as a result of the higher debt balance and a higher average interest rate. The change in the U.S. exchange rate during 2006 partially offset this increase, resulting in a 28.8% increase in interest expense when measured in Canadian currency. The Company uses U.S. dollar-denominated debt to finance its U.S. dollar investments.

Interest on Senior Unsecured Debentures

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|---|-----------|----------|
| Interest expense on senior unsecured debentures | \$ 12,935 | \$ 2,710 |
| Implicit interest rate in excess of coupon rate | (27) | — |
| Change in accrued interest | (3,340) | (153) |
| Cash interest paid | \$ 9,568 | \$ 2,557 |

The increase in interest expense from senior unsecured debentures is due to the following debt issuances:

| Series | Date of Issue | Maturity Date | Par Value | Semi-Annual Interest Payable Dates | Coupon Rate |
|--------|--------------------|------------------|---------------|------------------------------------|-------------|
| A | June 21, 2005 | June 21, 2012 | \$100 million | June 21 and December 21 | 5.08% |
| B | March 30, 2006 | March 30, 2011 | \$100 million | March 30 and September 30 | 5.25% |
| C | August 1, 2006 | December 1, 2011 | \$100 million | June 1 and December 1 | 5.49% |
| D | September 18, 2006 | April 1, 2013 | \$100 million | April 1 and October 1 | 5.34% |

Interest on Convertible Debentures

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|----------|----------|
| Interest expense on convertible debentures | \$ 6,196 | \$ 9,766 |
| Implicit interest rate in excess of coupon rate | (215) | (1,438) |
| Change in accrued interest | (1,686) | 2,137 |
| Less interest paid in common shares of the Company | (4,295) | (10,465) |
| Cash interest paid | \$ — | \$ — |

Management's Discussion and Analysis – continued

The reduction in convertible debenture interest expense is due to the redemption of the 7.25% convertible debentures in March 2005 and the 7.0% convertible debentures in September 2005. Interest on convertible debentures for the year ended December 31, 2006 consists of interest on the \$100 million of par value 5.50% convertible unsecured subordinated debentures issued December 19, 2005 and the \$100 million of par value issued on November 30, 2006. Interest on the convertible debentures is payable semi-annually on March 31 and September 30. In 2006, 178,373 (2005 –543,547) common shares were issued to pay interest to holders of convertible debentures.

Corporate Expenses

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|------------------|-----------|
| Salaries, wages and benefits | \$ 13,833 | \$ 10,626 |
| Non-cash compensation | 2,543 | 1,532 |
| Other general and administrative costs | 7,344 | 5,954 |
| Capital taxes, net of recoveries from tenants | 1,959 | 1,442 |
| Amounts capitalized to properties under development and deferred leasing costs | (6,397) | (5,182) |
| Total corporate expenses | \$ 19,282 | \$ 14,372 |

Total corporate expenses have increased as salaries, wages and benefits and staffing levels increased in response to portfolio growth including the full internalization of development, leasing, legal, construction management and tenant co-ordination, which was initiated in the fourth quarter of 2004 and completed during 2005. In addition, corporate expenses include costs for all other real estate activities including those incurred on unsuccessful or abandoned acquisitions and for general corporate purposes and net capital taxes.

Non-cash compensation is recognized over the respective vesting periods for 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 and 2006, 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, 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. Certain costs associated with the Company's internal leasing staff are capitalized to deferred leasing costs and amortized over the terms of the related leases. Amounts capitalized to real estate investments during 2006 totalled \$6.4 million, compared to \$5.2 million in 2005. Amounts capitalized are based on specific leases completed, and development and redevelopment projects underway. The increase in capitalized costs was due to the increased level of development activities and new and renewal leases completed and to the full impact of the internalization of these and other value-creation activities occurring in 2006.

Amortization Expense

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|------------------------------------|-----------|-----------|
| Shopping centres | \$ 46,441 | \$ 36,854 |
| Deferred costs | 12,118 | 8,467 |
| Intangible assets | 5,693 | 2,495 |
| Amortization of real estate assets | 64,252 | 47,816 |
| Deferred financing fees | 3,178 | 2,096 |
| Other assets | 1,011 | 409 |
| Total amortization | \$ 68,441 | \$ 50,321 |

Amortization of real estate assets increased due to the amortization of newly acquired properties and developments coming on line.

Deferred financing costs include underwriting fees and other costs incurred in connection with debt financing, and are amortized over the term of the related financing. The increase in 2006 over 2005 is primarily due to the issuance of senior unsecured debentures and convertible debentures, and renewals of credit facility agreements during the year.

Income Taxes

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|-----------|-----------|
| Canadian federal large corporations tax | \$ — | \$ 1,631 |
| United States current income taxes and other | 4,155 | 2,436 |
| Future income taxes | 13,593 | 9,056 |
| Total | \$ 17,748 | \$ 13,123 |

The total income tax expense has increased compared to 2005 due to the increase in net income before income taxes, partially offset by the elimination of the federal large corporations tax in 2006.

Net Income

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|-------------------------------|-----------|-----------|
| Net income | \$ 45,959 | \$ 29,196 |
| Net income per diluted share | \$ 0.62 | \$ 0.50 |

The increase in net income per share was primarily from NOI growth due to acquisitions and development coming on line, increased equity income from Equity One, Inc. that resulted from a gain on disposition of their Texas portfolio (approximately \$19.4 million, net of taxes) partially offset by increased interest expense of \$13.5 million, an increase in amortization expense of \$18.1 million and to a lesser degree, an increase in the weighted average number of shares outstanding.

Management's Discussion and Analysis – continued

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 sustainable cash dividends to shareholders. 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 2005, the Dominion Bond Rating Service Ltd. ("DBRS") provided First Capital Realty with a credit rating of BBB (low) with a stable trend relating to the senior unsecured debentures and in 2006, Moody's Investor Services, Inc. ("Moody's" and, together with DBRS, the "Rating Agencies") provided First Capital Realty with a credit rating of Baa3 with a stable outlook relating to these debentures. A credit rating in the BBB category is generally an indication of adequate credit quality as defined by DBRS. A credit rating of Baa3 denotes that these debentures are subject to moderate credit risk and are of medium-grade and, as such, may possess certain speculative characteristics as defined by Moody's. A rating outlook, expressed as positive, stable, negative or developing, provides the Rating Agencies' opinion regarding the outlook for the rating in question over the medium term. The credit ratings assigned are not recommendations to purchase, hold or sell these debentures. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by either or both Rating Agencies at any time.

Capital Employed

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|---------------------|--------------|
| Mortgages and credit facilities – Canada | \$ 1,225,931 | \$ 1,142,430 |
| Credit facilities – U.S. | 162,719 | 154,610 |
| Mortgages and credit facilities | 1,388,650 | 1,297,040 |
| Senior unsecured debentures payable | 399,813 | 100,000 |
| Convertible debentures payable | 192,189 | 96,990 |
| Equity component of convertible debentures | 9,030 | 3,015 |
| Other | (1,219) | (5) |
| Convertible debentures principal | 200,000 | 100,000 |
| Share capital | 1,128,926 | 1,022,701 |
| Warrants | 236 | 472 |
| Options and share units | 4,625 | 3,004 |
| Cumulative currency translation | (14,170) | (14,577) |
| Contributed surplus | 19,513 | 19,513 |
| Deficit | (236,567) | (191,584) |
| | 902,563 | 839,529 |
| Total capital employed | \$ 2,891,026 | \$ 2,336,569 |

Mortgages and Credit Facilities

As at December 31, 2006, mortgages and credit facilities increased primarily due to financing on acquisitions of shopping centres and development activities during the year. The weighted average interest rate on fixed rate mortgages and credit facilities was 6.4% at December 31, 2006 compared to 6.5% at December 31, 2005.

| <i>(thousands of dollars)</i> | 2006 | | | 2005 |
|-------------------------------|--------------|------------|--------------|--------------|
| | Canada | U.S. | Total | Total |
| Fixed rate | \$ 1,190,438 | \$ 52,443 | \$ 1,242,881 | \$ 1,144,204 |
| Floating rate | 35,493 | 110,276 | 145,769 | 152,836 |
| | \$ 1,225,931 | \$ 162,719 | \$ 1,388,650 | \$ 1,297,040 |

At December 31, 2006, 89.5% of the outstanding mortgage and credit facility liabilities bore interest at fixed interest rates, which is consistent with 2005. 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, 2006, in the aggregate amount of \$1.2 billion as compared to \$1.1 billion at the end of 2005. The increase in the outstanding balance is the net result of \$186.6 million in new financings primarily from financing assumed on acquisitions and top-up financing on existing properties with mortgages offset by \$76.4 million in repayments. The average remaining term of the mortgages outstanding has declined from 6.4 years at December 31, 2005 to 5.9 years at December 31, 2006. This decline is due to the passage of time and the assumption of mortgages with shorter remaining terms.

The floating rate financing facility 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 to replace floating rate debt.

The U.S. dollar-denominated credit facilities totalling Cdn\$162.7 million are used to finance the Company's investment in Equity One and other investments and to 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\$132.9 million at December 31, 2005 to US\$139.6 million at December 31, 2006.

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, 2006, the Company had mortgages and credit facilities aggregating \$197 million coming due in 2007, of which \$106.4 million are mortgages at an average interest rate of 6.25% and \$33 million represents scheduled amortization of principal balances during the year. The remaining \$57.6 million of debt maturing in 2007 is represented by credit facilities. As the Company intends to renew or replace its bank credit facilities prior to their maturity dates and foresees no difficulty in doing so, cash payment of the outstanding credit facilities at their maturity is not expected to be required.

Subsequent to December 31, 2006, the Company completed a \$250 million unsecured line of credit which is further described under "Subsequent Events".

Management's Discussion and Analysis – continued

Senior Unsecured Debentures

The Company completed the issuance of \$300 million of senior unsecured debentures, as described under “Interest Expense” in the year ended December 31, 2006. Subsequent to December 31, 2006, the Company completed an additional \$100 million issuance of senior unsecured debentures as described under “Subsequent Events”.

The senior unsecured debentures were rated BBB(low) with a stable trend by Dominion Bond Rating Services and Baa(3) with a stable outlook by Moody's Investor Services.

The Company intends to continue to issue senior unsecured debentures and finance its acquisitions, development activities and mortgage maturities. The Company believes that unsecured financing, in combination with its other sources of debt and equity capital, will provide the Company with a reduced cost of capital over the long term.

Debt and Principal Amortization Maturity Profile

| <i>(thousands of dollars)</i> | Mortgages and Cdn Credit Facilities | Senior Unsecured Debentures | U.S. Credit Facilities | Total | % Due |
|-------------------------------|--|-----------------------------------|---------------------------|--------------|--------|
| 2007 | \$ 174,610 | \$ — | \$ 22,433 | \$ 197,043 | 11.0% |
| 2008 | 97,619 | — | 7,866 | 105,485 | 5.9% |
| 2009 | 74,190 | — | 7,866 | 82,056 | 4.6% |
| 2010 | 112,773 | — | 111,005 | 223,778 | 12.5% |
| 2011 | 87,310 | 200,000 | 13,549 | 300,859 | 16.8% |
| 2012 | 120,917 | 100,000 | — | 220,917 | 12.4% |
| 2013 | 146,497 | 100,000 | — | 246,497 | 13.8% |
| 2014 | 216,584 | — | — | 216,584 | 12.1% |
| 2015 | 116,717 | — | — | 116,717 | 6.5% |
| 2016 | 40,437 | — | — | 40,437 | 2.3% |
| Thereafter | 38,277 | — | — | 38,277 | 2.1% |
| | \$ 1,225,931 | \$ 400,000 | \$ 162,719 | \$ 1,788,650 | 100.0% |

The Company is liable for minimum land-lease payments of \$0.8 million on certain of its properties in each year from 2007 to 2011 and \$11.7 million thereafter. Total minimum land-lease payments are \$15.9 million. The leases expire between 2018 and 2039.

Convertible Debentures

| <i>(thousands of dollars)</i> | | 2006 | | | 2005 | | |
|-------------------------------|----------|------------|------------|----------|------------|-----------|----------|
| Interest Rate | | Principal | Liability | Equity | Principal | Liability | Equity |
| Coupon | Implicit | | | | | | |
| 5.50% | 5.86% | \$ 100,000 | \$ 97,176 | \$ 3,015 | \$ 100,000 | \$ 96,990 | \$ 3,015 |
| 5.50% | 6.14% | 100,000 | 95,013 | 6,015 | — | — | — |
| | | \$ 200,000 | \$ 192,189 | \$ 9,030 | \$ 100,000 | \$ 96,990 | \$ 3,015 |

On November 30, 2006, the Company issued, via private placement, \$100 million 5.50% convertible unsecured subordinated debentures for total proceeds of \$101 million. These debentures are in addition to and part of the \$100 million of convertible debentures issued on December 19, 2005. Fifty million dollars of the principal amount of these debentures were issued to the Company's largest shareholder, Gazit Canada Inc. on the same terms as the other investors. The 5.50% debentures are due September 30, 2017 and 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 the Company 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.

In 2006, 178,373 (2005 – 543,547) common shares were issued to pay interest to holders of convertible debentures.

Shareholders' Equity

Shareholders' equity amounted to \$912 million as at December 31, 2006, as compared to \$843 million at the end of 2005. Shareholders' equity as at December 31, 2006 included \$9.0 million (2005 – \$3.0 million) representing the equity component of convertible debentures as discussed above.

As at December 31, 2006, the Company had 75,297,908 (2005 – 70,645,834) issued and outstanding common shares with a stated capital of \$1.1 billion (2005 – \$1.0 billion). During fiscal 2006, a total of 4,652,074 common shares were issued as follows: 178,373 shares for interest payments on convertible debentures; 1,135,000 shares in connection with a public offering; 480,255 shares from the exercise of common share options and warrants, 70,000 shares from a private placement; and 2,788,446 common shares under the Company's 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. Since inception, the quarterly participation rate in the DRIP averaged 76%.

Shareholders' equity as at December 31, 2006 included a negative cumulative, unrealized currency translation adjustment in the amount of \$14.2 million (2005 – \$14.6 million). This amount represents the difference between the U.S. dollar exchange rate in effect at the date

Management's Discussion and Analysis – continued

of the acquisition of the Company's U.S. net assets, and the U.S. dollar exchange rate as at December 31, 2006 and 2005, respectively. The U.S. dollar exchange rate in effect at December 31, 2006 increased to US\$1.00 = Cdn\$1.17 from the exchange rate at December 31, 2005 of US\$1.00 = Cdn\$1.16. The impact of the increase in the foreign exchange rate on the net assets held in the United States resulted in a \$0.4 million change in the unrealized currency translation adjustment.

Shareholders' equity as at December 31, 2006 included a deficit of \$236.6 million (2005 – \$191.6 million). The Company has historically paid dividends at levels consistent with general industry practice based on cash flow from operations as opposed to net income.

Share Purchase Options

As of December 31, 2006, the Company issued and had outstanding 1,568,968 share purchase options, with an average exercise price of \$20.58. 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 certain 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, 2006 were exercised, 1,568,968 shares would be issued and the Company would receive proceeds of approximately \$32 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 top-ups and public equity and debt 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 \$6.8 million at December 31, 2006 (2005 – \$5.3 million). At December 31, 2006, the Company had undrawn Canadian credit facilities totalling \$99.8 million and had approved credit facilities totalling \$225 million, of which \$137.8 million were available based on security provided to the banks. The Company also had unencumbered assets with a gross book value of approximately \$704 million. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term.

The Company historically used secured mortgages and credit facilities, senior 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.

Cash Flows

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|---------------------------------------|------------|-----------|
| Cash provided by operating activities | \$ 115,173 | \$ 94,659 |
| Cash used in investing activities | (507,566) | (475,641) |
| Cash provided by financing activities | 393,511 | 381,342 |
| Effect of currency rate movement | 357 | 92 |
| Increase in cash and cash equivalents | \$ 1,475 | \$ 452 |

Operating Activities

The increase in cash provided by operating activities reflects the special dividend from Equity One of US\$13.3 million received in the second quarter of 2006, as well as the overall increase in cash flow generated by the growth in the income-producing shopping centre portfolio from acquisitions and development.

Investing Activities

The Company continues to make significant investments in its shopping centre portfolio. The overall level of investing activity in 2006 is comparable to the prior year. Details of the Company's investments in acquisitions and developments are provided under "Operations".

Financing Activities

The overall level of financing activity in 2006 is also comparable to the prior year. However, the Company has obtained a more significant percentage of its debt financing through the issuance of senior unsecured debentures which totalled \$300 million of gross proceeds during 2006 compared to \$100 million in the prior year. Subsequent to December 31, 2006, the Company completed an additional \$100 million issuance of debentures as described under subsequent events. In addition, the introduction of the Company's DRIP in the second quarter of 2005 caused cash dividends paid to decrease to \$22.4 million from \$52.3 million in the prior year.

Cash and Cash Equivalents

Cash and cash equivalents is comparable to the prior year at \$6.8 million. Cash resources are promptly redeployed into investing activities to maximize the accretion to FFO per share.

Contractual Obligations

| <i>(thousands of dollars)</i> | Total | Payments due by period | | | |
|-------------------------------|--------------|------------------------|------------|------------|-------------------|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Mortgages | | | | | |
| Scheduled amortization | \$ 219,370 | \$ 33,020 | \$ 55,460 | \$ 50,796 | \$ 80,094 |
| Payments on maturity | 971,418 | 106,447 | 116,349 | 149,287 | 599,335 |
| Total mortgage obligations | 1,190,788 | 139,467 | 171,809 | 200,083 | 679,429 |
| Canadian credit facilities | 35,143 | 35,143 | — | — | — |
| U.S. credit facilities | 162,719 | 22,433 | 15,732 | 124,554 | — |
| Letters of credit | 5,495 | 5,495 | — | — | — |
| Senior unsecured debentures | 400,000 | — | — | 200,000 | 200,000 |
| Land leases | 15,913 | 843 | 1,686 | 1,698 | 11,686 |
| Development and redevelopment | 61,728 | 44,318 | 17,410 | — | — |
| Total contractual obligations | \$ 1,871,786 | \$ 247,699 | \$ 206,637 | \$ 526,335 | \$ 891,115 |

The Company has pledged letters of credit totalling \$5.5 million primarily related to its development activities.

Management's Discussion and Analysis – continued

The Company's estimated costs to complete properties currently under development are \$62 million. These obligations primarily consist of construction contracts and are expected to be funded from credit facilities as the work is completed.

Certain properties are subject to land leases. Annual commitments under these ground leases are detailed in the contractual obligation table.

Contingencies

The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of Management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the Company.

On October 16, 2006, First Capital Realty and First Capital (Royal Oak) Corporation (a wholly-owned nominee subsidiary of First Capital Realty) were named as defendants in a lawsuit commenced by Rencor Developments Inc. and Rencor Developments (Royal Oak) Inc. (collectively, "Rencor"). First Capital Realty and Rencor are joint-venture partners in the Royal Oak Shopping Centre located in Calgary, Alberta, in which First Capital Realty owns a 60% undivided interest and Rencor owns the remaining 40% undivided interest. The Statement of Claim seeks damages for alleged breaches by First Capital Realty of certain agreements relating to the ownership and operation of the Royal Oak Shopping Centre. First Capital Realty believes the lawsuit to be frivolous and without merit and intends to vigorously defend against the allegations made in the Statement of Claim. Accordingly, as of December 31, 2006, First Capital Realty has not recorded any loss provision with respect to this claim in its financial statements.

Regardless of the merits of the claim by Rencor, one of the consequences of this lawsuit is that First Capital Realty will not, pending resolution of the lawsuit, be able to exercise its contractual option to acquire the 40% interest in the Royal Oak Shopping Centre that First Capital Realty does not currently own. This option is on financial terms that are favourable to First Capital Realty (a capitalization rate of 9.5%), and was expected to be exercised by First Capital Realty in January of 2007. The exercise by First Capital Realty of this contractual option in January 2007 was expected to contribute approximately \$900,000 annually to First Capital Realty's FFO in 2007 and each year thereafter.

The Company is contingently liable, jointly and severally, for approximately \$48.2 million (2005 – \$49.3 million) to various lenders in connection with loans advanced to its joint-venture partners secured by the partners' interest in the co-ownerships.

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 2006, the Company paid regular dividends of \$1.23 per common share (2005 – \$1.20 per common share and a special dividend of \$0.20 per share in March 2005). The regular dividend payout ratio calculated as a percent of Funds from Operations per share was approximately 78% in 2006 compared to approximately 81% in 2005. The Company is currently paying a quarterly dividend of \$0.31 per common share. Dividends declared totalled \$90.6 million for the four quarters of 2006, of which \$68.3 million were reinvested by shareholders pursuant to the DRIP in common shares.

QUARTERLY ANALYSIS

| (\$000s except per share and other data) | 2006 | | | | 2005 | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Property rental revenue | 87,815 | 81,592 | 78,634 | 77,939 | 70,936 | 70,235 | 63,403 | 60,266 |
| Property rental expense | 30,481 | 29,236 | 29,119 | 31,518 | 25,676 | 26,864 | 23,769 | 23,482 |
| Net operating income | 57,334 | 52,356 | 49,515 | 46,421 | 45,260 | 43,371 | 39,634 | 36,784 |
| Net income | 12,035 | 6,542 | 20,686 | 6,696 | 7,626 | 8,740 | 6,479 | 6,351 |
| Basic earnings per share | \$ 0.16 | \$ 0.09 | \$ 0.28 | \$ 0.09 | \$ 0.11 | \$ 0.26 | \$ 0.10 | \$ 0.27 |
| Diluted earnings per share | \$ 0.16 | \$ 0.09 | \$ 0.28 | \$ 0.09 | \$ 0.11 | \$ 0.14 | \$ 0.10 | \$ 0.10 |
| Weighted average diluted shares outstanding | | | | | | | | |
| — EPS | 76,024,888 | 74,997,493 | 77,690,795 | 72,168,535 | 71,311,303 | 69,758,875 | 64,327,921 | 61,283,912 |
| Funds from operations | 32,688 | 28,540 | 28,933 | 27,025 | 26,889 | 25,379 | 23,102 | 19,296 |
| Funds from operations/ share diluted | \$ 0.43 | \$ 0.38 | \$ 0.39 | \$ 0.37 | \$ 0.38 | \$ 0.39 | \$ 0.36 | \$ 0.35 |
| Weighted average diluted shares outstanding | | | | | | | | |
| — FFO | 76,024,888 | 74,997,493 | 73,987,091 | 72,168,535 | 71,311,303 | 65,355,568 | 64,327,921 | 54,730,436 |
| Dividend | \$ 0.31 | \$ 0.31 | \$ 0.31 | \$ 0.30 | \$ 0.30 | \$ 0.30 | \$ 0.30 | \$ 0.30 ⁽¹⁾ |
| Total assets | 3,060,879 | 2,849,611 | 2,714,534 | 2,633,046 | 2,469,288 | 2,389,404 | 2,214,076 | 2,007,137 |
| Total mortgages and credit facilities | 1,388,650 | 1,304,611 | 1,378,861 | 1,350,863 | 1,297,040 | 1,331,505 | 1,167,915 | 1,054,492 |
| Shareholders' equity | 911,593 | 895,440 | 890,214 | 847,048 | 842,544 | 836,464 | 732,714 | 741,998 |
| Other Data | | | | | | | | |
| Number of properties | 158 | 151 | 143 | 137 | 133 | 128 | 118 | 110 |
| Gross leasable area | 18,166,000 | 17,338,000 | 16,793,000 | 16,398,000 | 15,712,000 | 15,377,000 | 14,420,000 | 13,511,000 |
| Occupancy % | 95.7% | 95.4% | 95.1% | 94.7% | 95.0% | 94.7% | 94.7% | 93.9% |

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

The growth over the eight quarters in 2005 and 2006 in property rental revenue, property expenses and net operating income is primarily due to acquisitions and development coming on line.

Refer to the MD&A and the Quarterly Financial Statements for discussion and analysis relating to the four quarters in 2005 and the first three quarters in 2006. A discussion of the fourth quarter of 2006 follows.

Management's Discussion and Analysis – continued

Q4 2006 Operations and Results

During the fourth quarter of 2006, the Company acquired interests in seven income-producing shopping centres in Ontario, British Columbia and Quebec. The aggregate acquisition amount of \$127.5 million, including closing costs, was funded with assumed mortgages of \$37.8 million with the balance paid in cash.

The Company also invested \$8.5 million in acquiring additional space and two land parcels at, or adjacent to, existing properties adding 17,600 square feet of gross leasable area and 6.7 acres of expansion land to the portfolio.

In the fourth quarter of 2006, 200,500 square feet of newly developed space came on line in the following shopping centres:

| Property Name | City | Province | Gross Leasable Area | |
|-----------------------------|--------------|----------|---------------------|-----------------------------|
| | | | Square Feet | Major Tenants |
| Charlemagne | Charlemagne | QC | 139,100 | Rona |
| King Liberty Village | Toronto | ON | 22,300 | Kasian Architecture |
| Clairfields Commons | Guelph | ON | 15,300 | Scotiabank, TD Canada Trust |
| Promenades Levis | Levis | QC | 8,800 | Bank of Montreal |
| West Lethbridge Town Centre | Lethbridge | AB | 5,100 | Scotiabank |
| Red Deer Village | Red Deer | AB | 4,900 | Mark's Work Wearhouse |
| Chemong Plaza | Peterborough | ON | 5,000 | TD Canada Trust |
| | | | 200,500 | |

The 200,500 square feet of space developed and brought on line during the quarter was leased at an average rate of \$14.73 per square foot.

In addition to acquisitions of income-producing properties and development assets, the Company invested \$35.6 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 2006 resulted in net new leasing of 219,000 square feet, including development projects coming on line, and renewal leasing of 477,000 square feet. Portfolio occupancy at December 31, 2006 increased to 95.7% from 95.4% at September 30, 2006. Properties acquired during the fourth quarter had an average lease rate per square foot of \$16.49 and occupancy of 94.4%. The average rate per occupied square foot at December 31, 2006 increased to \$13.95 from \$13.83 at September 30, 2006.

FFO per diluted share was \$0.43 in the fourth quarter of 2006, compared to \$0.38 in the fourth quarter of 2005. The increase was due primarily to the Company's property acquisitions and development projects coming on line partially offset by an increase in the weighted average diluted number of shares outstanding.

Net operating income increased to \$57.3 million from \$45.3 million in the fourth quarter of 2005. The increase was due to \$5.7 million from 2006 acquisitions, \$0.2 million from the incremental impact of acquisitions made in 2005, \$1.4 million from properties under development, same property income growth of \$2.2 million and an increase in revenue recognized on a straight-line basis and market rent adjustments of \$2.5 million.

EVENTS SUBSEQUENT TO DECEMBER 31, 2006

Acquisitions

Since January 1, 2007, First Capital Realty has invested \$15.5 million in the acquisition of two development sites totalling 38.6 acres of commercial land.

On March 14, 2007, the Company acquired Westmount Shopping Centre located in northwest Edmonton, Alberta. The property is situated on 30.5 acres of land and on completion of redevelopment will consist of 511,000 square feet. The purchase price of \$70 million, including closing costs, was satisfied in cash.

Issuance of Senior Unsecured Debentures

On January 31, 2007, the Company issued \$100 million of Series E senior unsecured debentures at a coupon rate of 5.36% for net proceeds of \$99.3 million. These debentures mature January 31, 2014 with interest payable on January 31 and July 31 each year.

Interest on Convertible Debentures

On February 27, 2007, the Company announced that it will pay the interest due on March 31, 2007 to holders of both classes of its 5.50% convertible unsecured subordinated 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 Toronto Stock Exchange, calculated for the 20 consecutive trading days ending on March 23, 2007. The interest payment due is approximately \$5.5 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.

Unsecured Credit Facility

On March 5, 2007, the Company completed a \$250 million three-year unsecured revolving credit facility syndicated with six financial institutions. Two of the Company's three existing secured credit facilities were cancelled effective the same date. As of March 5, 2007, properties with a gross book value of \$195.4 million were released as security under the existing secured credit facilities. The remaining secured facility will expire on April 30, 2007 and will not be renewed. Properties with a gross book value of \$29.5 million will be released as security on its expiry.

Quarterly Dividend

The Company announced that it will pay a first quarter dividend of \$0.31 per common share on April 5, 2007 to shareholders of record on March 28, 2007.

Dispositions

Subsequent to year end, the Company sold a shopping centre with a net book value of \$5.9 million for proceeds of \$6.4 million.

Current Outstanding Share Data

As at March 8, 2007, 75,992,289 common shares were issued and outstanding. There were no material changes since December 31, 2006, other than as described above in the amount of options, warrants or convertible debentures outstanding.

Management's Discussion and Analysis – continued

OUTLOOK

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. Certain material factors and assumptions were applied in providing these forward-looking statements.

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”.

Factors that could cause actual results or events to differ materially from those expressed or implied by forward-looking statements in addition to those described in the “Risk Management” section 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.

Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. First Capital Realty undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.

These forward-looking statements are made as of March 8, 2007.

In 2006, First Capital Realty made significant progress in meeting or exceeding all of its stated goals and objectives. The Company grew its business and generated solid increases in funds from operations while finishing the year with a stronger balance sheet.

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.

Specifically, Management will focus on the following four areas to achieve its objectives in 2007:

- same property net operating income growth;
- development and redevelopment activities;
- improving efficiency and productivity of our operations; and
- improving the cost of capital.

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.

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

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

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

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

Management's Discussion and Analysis – continued

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 the fair value of its mortgage debt, senior 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

Current accounting policy change

EIC-159, Conditional Asset Retirement Obligations ("ARO"), was effective April 1, 2006 and required application on a retroactive basis with restatement of prior periods. The initial application of EIC-159 required recording of a liability for an existing ARO and an asset retirement cost capitalized as an increase to the carrying amount of the associated income property. The Company had no material AROs at April 1, 2006, therefore adoption of this standard did not have a material impact on the Company's financial position.

Future accounting policy changes

The Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards that are effective for the Company's fiscal year commencing January 1, 2007. The standards are to be applied on a retroactive basis without restatement of prior periods and consist of Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3865, Hedges.

(i) Comprehensive income – CICA Section 1530

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of hedging instruments. The Company's consolidated financial statements will include a consolidated statement of other comprehensive income while the cumulative amount will be presented as a new category of shareholders' equity.

(ii) Financial instruments – recognition and measurement – CICA Section 3855

CICA Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities classified as held-for-trading are required to be measured at fair value with gains and losses recognized in net income.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in OCI.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost.

The classifications above do not apply to investments where the Company has significant influence, that are accounted for using the equity method.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract. Changes in the fair values of derivative instruments are required to be recognized in net income, except for derivatives that are designated as a hedge. The fair value changes for the effective portion of such hedges are to be recognized in OCI.

The standard specifically excludes CICA Section 3065, Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract. The Company will apply the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

(iii) Hedges – CICA Section 3865

CICA Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation.

In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in net earnings. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective as defined by the standard (“effective”), will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion as defined by the standard will be recognized in net earnings. The amounts recognized in OCI will be reclassified to net earnings in those periods in which net earnings is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments will be recognized in OCI and the ineffective portion will be recognized in net earnings.

Deferred gains or losses on the hedging instrument with respect to fair value hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to net earnings over the remaining term of the hedged item for fair value hedges, and for cash flow hedges will be recognized in OCI and reclassified to net earnings in the same period during which the hedged item affects net earnings. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of deficit on transition.

(iv) Effect of adopting CICA Sections 1530, 3855 and 3865

The transition adjustment attributable to the above described standards will be recognized in the opening balance of deficit or accumulated other comprehensive income at January 1, 2007. The amount of the adjustment is currently being quantified by Management.

Management's Discussion and Analysis – continued

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

First Capital Realty Inc. Management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately.

The Chief Executive Officer, and the Chief Financial Officer of the Company have evaluated, or caused the evaluation of under their direct supervision, 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, 2006, and have concluded that such disclosure controls and procedures were designed and operating effectively.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure controls and procedures occur and/or mistakes happen, the Company intends to take whatever steps necessary to minimize the consequences thereof.

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles.

Management evaluated the design of its internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2006. This evaluation was performed by the Chief Executive Officer and the Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design of these internal controls and procedures over financial reporting was effective.

The Company did not make any material changes to the design of internal controls over financial reporting during the three months ended December 31, 2006 that have had a material effect on the Company's internal controls over financial reporting. On an ongoing basis, the Company will continue to analyze its controls and procedures for potential areas of improvement.

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 action to minimize the impact of these risks 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 was 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 56.0% of the Company's annualized minimum rent from its Canadian portfolio.

Management's Discussion and Analysis – continued

| Tenant | Number of Stores | Square Feet | Percent of Total Canadian Gross Leasable Area | Percent of Total Canadian Annualized Minimum Rent | DBRS Organization Credit Rating | S&P ⁽¹⁾ Organization Credit Rating | |
|------------------------------|---|-------------|---|---|---------------------------------|---|------|
| Top Thirty Tenants | | | | | | | |
| 1 | Sobeys (incl. Western Cellars) | 39 | 1,336,000 | 7.3% | 7.3% | BBB (high) | BBB– |
| 2 | Loblaws | 27 | 1,425,000 | 7.8% | 7.1% | A | A– |
| 3 | Shoppers Drug Mart (incl. Home Health Care) | 42 | 529,000 | 2.9% | 4.7% | A(low) | BBB+ |
| 4 | Metro | 26 | 915,000 | 5.0% | 4.5% | BBB | BBB |
| 5 | Zellers/Home Outfitters | 17 | 1,562,000 | 8.6% | 4.5% | | |
| 6 | Canadian Tire (incl. Mark's Work Wearhouse) | 19 | 751,000 | 4.1% | 3.9% | A(low) | BBB+ |
| 7 | Canada Safeway | 9 | 375,000 | 2.1% | 1.9% | BBB | BBB– |
| 8 | TD Canada Trust | 26 | 138,000 | 0.8% | 1.7% | AA(low) | A+ |
| 9 | Wal-Mart | 4 | 473,000 | 2.6% | 1.5% | AA | AA |
| 10 | Rona | 2 | 257,000 | 1.4% | 1.3% | BBB(high) | BBB– |
| 11 | Royal Bank | 20 | 128,000 | 0.7% | 1.3% | AA(low) | AA– |
| 12 | CIBC | 22 | 99,000 | 0.5% | 1.2% | AA(high) | A+ |
| 13 | Scotiabank | 20 | 102,000 | 0.6% | 1.1% | AA(low) | AA– |
| 14 | Staples | 8 | 190,000 | 1.0% | 1.0% | | BBB+ |
| 15 | H.Y. Louie Group (London Drugs) | 7 | 184,000 | 1.0% | 1.0% | | |
| 16 | Rogers | 27 | 104,000 | 0.6% | 1.0% | BB(high) | BB+ |
| 17 | Save-On-Foods | 4 | 181,000 | 1.0% | 1.0% | | |
| 18 | Reitmans | 32 | 150,000 | 0.8% | 0.9% | | |
| 19 | Cara Operations (Swiss Chalet/Kelsey's) | 21 | 81,000 | 0.4% | 0.9% | | |
| 20 | LCBO | 11 | 94,000 | 0.5% | 0.9% | AA | AA |
| 21 | Winners Merchants Inc | 4 | 150,000 | 0.8% | 0.8% | A | A |
| 22 | Blockbuster | 18 | 89,000 | 0.5% | 0.8% | | B– |
| 23 | Future Shop | 5 | 140,000 | 0.8% | 0.8% | | BBB |
| 24 | Dollarama | 18 | 151,000 | 0.8% | 0.8% | | B |
| 25 | Linens N Things | 3 | 107,000 | 0.6% | 0.8% | | |
| 26 | Tim Hortons | 31 | 87,000 | 0.5% | 0.7% | | |
| 27 | Pharma Plus | 11 | 85,000 | 0.5% | 0.7% | | |
| 28 | SAQ | 15 | 54,000 | 0.3% | 0.7% | A(low) | A+ |
| 29 | Bank of Montreal | 15 | 70,000 | 0.4% | 0.6% | AA | |
| 30 | Yum! Brands | 23 | 51,000 | 0.3% | 0.6% | | |
| Total: Top 30 Tenants | | 526 | 10,058,000 | 55.2% | 56.0% | | |

(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 4.1% to 9.1% of the annualized minimum rent in the Company's portfolio.

The Company's lease maturity profile at December 31, 2006 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 | 55 | 661,000 | 3.6% | \$ 9,877,000 | 4.1% | \$ 14.94 |
| 2007 | 502 | 1,417,000 | 7.8% | 20,622,000 | 8.5% | 14.55 |
| 2008 | 376 | 1,062,000 | 5.8% | 16,424,000 | 6.8% | 15.46 |
| 2009 | 372 | 1,355,000 | 7.5% | 21,959,000 | 9.1% | 16.21 |
| 2010 | 328 | 1,176,000 | 6.5% | 18,099,000 | 7.5% | 15.39 |
| 2011 | 294 | 1,346,000 | 7.4% | 19,189,000 | 7.9% | 14.26 |
| 2012 | 168 | 1,095,000 | 6.0% | 17,457,000 | 7.2% | 15.94 |
| 2013 | 141 | 1,137,000 | 6.3% | 16,194,000 | 6.7% | 14.24 |
| 2014 | 140 | 903,000 | 5.0% | 12,804,000 | 5.3% | 14.19 |
| 2015 | 137 | 1,244,000 | 6.8% | 17,421,000 | 7.2% | 14.01 |
| 2016 | 100 | 1,090,000 | 6.0% | 14,168,000 | 5.9% | 12.99 |
| 2017 | 31 | 791,000 | 4.4% | 8,559,000 | 3.5% | 10.82 |
| Thereafter | 260 | 4,110,000 | 22.8% | 49,165,000 | 20.3% | 11.96 |
| Total/Average | 2,904 | 17,387,000 | 95.9% | \$ 241,938,000 | 100.0% | \$13.91 |

Financing and Repayment of Indebtedness

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

Management's Discussion and Analysis – continued

Credit Ratings

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

Risk of Non-Collection of Straight-Line Rents Receivable

A significant portion of the Company's straight-line rents receivable will be payable by the tenant at dates up to 15 years in the future. Because of the inherent uncertainty of predicting economic trends and changes, consumer trends and specific tenant conditions, these straight-line rents receivable may not be collected. However, under Canadian GAAP, the Company can only record allowances for doubtful accounts on straight-line rents on a tenant-by-tenant basis, using specific, known facts and circumstances that exist in its portfolio at the time of the analysis. As such, the current allowance for doubtful accounts may not be adequate for potential future write-offs of these straight-line rent receivables.

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 traditionally not 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 | | | | | |
| Cedarbrae Mall | Toronto | 1996 | 469,000 | 98.4% | Loblaws, Zellers, Canadian Tire, Toys 'R' Us, LCBO, Scotiabank, CIBC, Bally Total Fitness, Dollarama |
| Fairview Mall | St. Catharines | 1994 | 393,000 | 99.4% | Food Basics (A&P), Zehrs ⁽¹⁾ (Loblaws), Zellers, 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, The Beer Store |
| Meadowvale Town Centre | Mississauga | 2003 | 385,000 | 97.7% | Dominion (A&P), Canadian Tire, Shoppers Drug Mart, LCBO, TD Canada Trust, CIBC, Bank of Montreal |
| Gloucester City Centre | Ottawa | 2003 | 345,000 | 98.3% | Loblaws, Zellers, Pharma Plus, Scotiabank, CIBC |
| Brantford Mall | Brantford | 1995 | 328,000 | 90.6% | 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 | 89.0% | Zellers, Canadian Tire, Business Depot (Staples), Shoppers Drug Mart, LCBO, CIBC, TD Canada Trust |
| Parkway Centre | Peterborough | 1996 | 253,000 | 100.0% | Price Chopper (Sobeys), Zellers, Winners, Reitmans, Sport Mart |
| Fairway Plaza | Kitchener | 2005 | 233,000 | 85.5% | Food Basics (A&P), Winners/HomeSense, Sport Chek, Pier 1 Imports, Dollarama, GoodLife Fitness |
| Harwood Plaza | Ajax | 1999 | 220,000 | 95.6% | Food Basics (A&P), Shoppers Drug Mart, Scotiabank, Blockbuster |
| Bridgeport Plaza | Waterloo | 1994 | 210,000 | 98.3% | Sobeys, Zellers, Rogers Video |
| Stanley Park Mall | Kitchener | 1997 | 193,000 | 95.5% | Zehrs (Loblaws), Zellers, Pharma Plus, LCBO, TD Canada Trust |
| Appleby Mall | Burlington | 2004 | 181,000 | 98.9% | Fortino's (Loblaws), Pharma Plus, LCBO, Bank of Montreal |
| Queenston Place | Hamilton | 1995 | 171,000 | 97.1% | Zellers, Mark's Work Wearhouse, Pennington's (Reitmans), Aaron's Electronics, Hamilton Produce |
| Sheridan Plaza | Toronto | 1996 | 168,000 | 100.0% | Food Basics (A&P), Zellers |
| Chartwell Shopping Centre | Toronto | 2005 | 161,000 | 95.8% | Price Chopper (Sobeys), Shoppers Drug Mart, CIBC, Bank of Montreal |
| King Liberty Village | Toronto | 2004 | 158,000 | 99.3% | Dominion, TD Canada Trust, Blockbuster, Toronto Economic Development Corp., Starbucks, Royal Bank, First Capital Realty Inc., Kasian Architech |
| Ambassador Plaza | Windsor | 1994 | 151,000 | 100.0% | 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 | 100.0% | Sobeys, Shoppers Drug Mart, CIBC, Scotiabank, TD Canada Trust |
| Grimsby Square Shopping Centre | Grimsby | 2005 | 146,000 | 99.1% | Sobeys, Canadian Tire, Shoppers Drug Mart, Royal Bank, Mark's Work Wearhouse, The Beer Store |
| Humbertown Shopping Centre | Toronto | 2006 | 144,000 | 93.6% | Loblaws, Bank of Nova Scotia, Blockbuster, LCBO, Shoppers Drug Mart, Royal Bank, The Second Cup |
| Loblaws Plaza | Ottawa | 2005 | 128,000 | 100.0% | Loblaws, Fabricland, Royal Bank, Shoppers Drug Mart |
| Festival Marketplace | Stratford | 1997 | 126,000 | 100.0% | Sears ⁽¹⁾ , Canadian Tire ⁽¹⁾ |
| Bowmanville Mall | Bowmanville | 2005 | 122,000 | 92.5% | A&P, Shoppers Drug Mart, Dollarama, GoodLife Fitness |
| McLaughlin Corners ⁽³⁾ | Brampton | 2002 | 120,000 | 100.0% | A&P, Shoppers Drug Mart, Royal Bank, Rogers Video, Pizza Hut |
| Orleans Gardens ⁽³⁾ | Ottawa | 2005 | 110,000 | 89.1% | Your Independent Grocer (Loblaws), CIBC, Scotiabank, Rogers Video, Pharma Plus |
| Eagleson Cope Drive | Ottawa | 2003 | 103,000 | 100.0% | Real Canadian Superstore (Loblaws) |
| Strandherd Crossing | Ottawa | 2004 | 103,000 | 100.0% | Loeb (Metro), Shoppers Drug Mart, Royal Bank, TD Canada Trust, Rogers Video, Starbucks |
| Maple Grove Village | Oakville | 2003 | 100,000 | 97.4% | Sobeys, Pharma Plus, CIBC, Rogers Video |
| Thickson Place | Whitby | 1997 | 93,000 | 100.0% | A&P, Toys 'R' Us ⁽¹⁾ , CIBC, TD Canada Trust |
| Brooklin Towne Centre ⁽³⁾ | Whitby | 2003 | 90,000 | 100.0% | Price Chopper (Sobeys), Shoppers Drug Mart, Scotiabank |
| York Mills Gardens | Toronto | 2004 | 90,000 | 100.0% | Longo's Supermarket, Shoppers Drug Mart, TD Canada Trust, Rogers Video |
| Byron Village | London | 2002 | 89,000 | 97.5% | A&P, Pharma Plus, LCBO, TD Canada Trust, Rogers Video |
| Norfolk Mall | Tillsonburg | 2004 | 88,000 | 99.6% | Zehrs (Loblaws) ⁽¹⁾ , Wal-Mart, Dollarama |
| Olde Oakville Market Place | Oakville | 2006 | 84,000 | 97.4% | Whole Foods, Shoppers Drug Mart, HSBC, Starbucks |
| Credit Valley Town Plaza | Mississauga | 2003 | 84,000 | 100.0% | Loblaws, Pharma Plus, CIBC, TD Canada Trust, Rogers Video |
| Wellington Corners | London | 1999 | 82,000 | 100.0% | Price Chopper (Sobeys), Shoppers Drug Mart, Montana's |
| 801 & 861 York Mills | Toronto | 2006 | 80,000 | 92.2% | Kelsey's, Swiss Chalet, Wendy's, Shoeless Joe's, Starbucks, Pizza Hut, Century 21, Uptown Spa |
| Steeple Hill Shopping Centre | Pickering | 2000 | 79,000 | 76.1% | Price Chopper (Sobeys), Shoppers Drug Mart, Blockbuster |
| Eagleson Place | Ottawa | 2003 | 76,000 | 90.5% | Loblaws, Rogers Video, The Beer Store, TD Canada Trust |

| Property | Location | Year Built or Acquired | Total Square Footage | Percent Occupied | Anchors and Major Tenants |
|--|----------------|------------------------|----------------------|------------------|--|
| ONTARIO (cont'd) | | | | | |
| Midland Lawrence Plaza | Toronto | 2002 | 76,000 | 97.4% | Price Chopper (Sobeys), Part Source (Canadian Tire), Tormedco |
| Dufferin Corners | Toronto | 2003 | 75,000 | 80.0% | Shoppers Drug Mart, TD Canada Trust |
| Sunningdale Village | London | 2006 | 73,000 | 95.3% | No Frills (Loblaws), Shoppers, Starbucks, Wells Fargo |
| Delta Centre | Cambridge | 1998 | 71,000 | 92.6% | Price Chopper (Sobeys), Dollarama, Shoppers Home Health Care |
| Towerhill Centre | Peterborough | 2001 | 69,000 | 96.1% | Sobeys, Government of Canada |
| Stoneybrook Plaza | London | 2006 | 55,000 | 100.0% | Sobeys, Pharma Plus, TD Canada Trust |
| Merchandise Building | Toronto | 2004 | 53,000 | 69.8% | Dominion (A&P) |
| Hyde Park Plaza | London | 2006 | 52,000 | 100.0% | Remark Farm, Shoppers Drug Mart, Bank of Montreal, Starbucks |
| Northfield Centre | Waterloo | 1999 | 52,000 | 100.0% | Sobeys, Pharma Plus, Royal Bank, Rogers Video |
| Yonge-Davis Centre | Newmarket | 2003 | 51,000 | 100.0% | Sleep Country |
| Burlingwood Shopping Centre | Burlington | 2005 | 46,000 | 100.0% | No Frills (Loblaws), Pharma Plus |
| Bayview Lane Plaza | Markham | 2003 | 46,000 | 91.8% | Food Basics (A&P), Bank of Montreal |
| 3434 Lawrence | Toronto | 2003 | 37,000 | 100.0% | Business Depot (Staples), Mark's Work Wearhouse |
| Clairfields Common | Guelph | 2006 | 34,000 | 100.0% | Shoppers Drug Mart, TD Canada Trust, Bank of Nova Scotia |
| Adelaide Shoppers | London | 2005 | 19,000 | 100.0% | Shoppers Drug Mart, Wendy's |
| Shoppers Waterloo | Waterloo | 2004 | 15,000 | 100.0% | Shoppers Drug Mart |
| 1842-1852 Queen Street West | Toronto | 2006 | 14,000 | 87.7% | Starbucks |
| Sub-total – Ontario | | | 8,258,000 | | |
| QUEBEC | | | | | |
| 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 |
| Centre Domaine | Montréal | 2002 | 195,000 | 97.2% | Metro ⁽³⁾ , Zellers, Rossy, CIBC, Dollarama, Uniprix |
| Centre commercial Côte St. Luc | Montréal | 2002 | 181,000 | 96.4% | IGA (Sobeys), Jean Coutu, SAQ, Royal Bank, Blockbuster, Dollarama |
| Plaza Delson | Delson | 2002 | 177,000 | 94.9% | Loblaws, Jean Coutu, Cinéplex, SAQ, National Bank, Rogers Video, Hart |
| Galeries Normandie | Montréal | 2002 | 174,000 | 100.0% | IGA (Sobeys), Pharmaprix, Bank of Montreal, Rossy, Royal Bank, SAQ, Baron Sports, Dollarama |
| Carrefour St-Hubert | Longueuil | 2002 | 157,000 | 62.8% | Maxi (Loblaws), Jean Coutu, CIBC, SAQ, Dollarama |
| La Porte de Gatineau | Gatineau | 1994 | 155,000 | 100.0% | Maxi (Loblaws), Toys 'R' Us ⁽¹⁾ , Future Shop, CIBC, TD Canada Trust, SAQ |
| Place Viau | Montréal | 2002 | 152,000 | 100.0% | Zellers |
| Hooper Building | Sherbrooke | 2005 | 141,000 | 81.1% | IGA Extra (Sobeys), Familiprix |
| Carrefour Soumande | Québec City | 2004 | 140,000 | 88.6% | Toys 'R' Us, Fruiterie 440 |
| Carrefour Charlemagne | Charlemagne | 2006 | 139,000 | 100.0% | Rona |
| Plaza Don Quichotte | Île Perrot | 2004 | 133,000 | 97.9% | IGA (Sobeys), SAQ, Caisse Populaire Desjardins, Aubainerie, Laurentian Bank |
| La Porte de Châteauguay | Châteauguay | 1995 | 132,000 | 99.0% | Zellers, Blockbuster |
| Centre commercial Wilderton | Montréal | 2002 | 130,000 | 95.3% | Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank, Laurentian Bank, Femme Fitness, Dollarama |
| Centre commercial Beaconsfield | Montréal | 2002 | 128,000 | 88.6% | Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank, Dollarama |
| Promenades Lévis | Lévis | 2004 | 127,000 | 95.7% | Metro, Bank of Montreal, Pharmacie Jean Coutu |
| Centre Maxi Trois Rivières | Trois Rivières | 2003 | 122,000 | 93.1% | Maxi (Loblaws), Value Village, Jean Coutu, Bank of Montreal, Blockbuster |
| Les Galeries de Repentigny | Repentigny | 1997 | 121,000 | 100.0% | Super C (Metro), Pharmaprix (Shoppers Drug Mart) |
| Place Pointe-aux-Trembles | Montréal | 2002 | 119,000 | 94.6% | Metro, Rossy, Jean Coutu |
| Centre Kirkland / St. Charles | Kirkland | 2006 | 114,000 | 98.4% | Uniprix, Bank of Montreal, Dollarama, CIBC |
| Centre commercial Maisonneuve ⁽²⁾ | Montréal | 2003 | 114,000 | 96.9% | Provigo (Loblaws), Canadian Tire, TD Canada Trust, SAQ, Brunet |
| Place Fleury | Montréal | 2002 | 108,000 | 100.0% | Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Reitmans |
| Le Campanile | Montréal | 2003 | 106,000 | 95.6% | Pharmaprix (Shoppers Drug Mart), Bank of Montreal, IGA (Sobeys), Jean Coutu |
| Les Promenades du Parc | Longueuil | 1997 | 105,000 | 94.3% | IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Blockbuster, National Bank |
| Place Panama | Brossard | 2006 | 94,000 | 96.1% | Loblaws ⁽¹⁾ |
| Place Pierre Boucher | Longueuil | 2004 | 80,000 | 86.5% | Maxi (Loblaws), Pharmaprix (Shoppers Drug Mart), SAQ |
| Centre commercial Van Horne | Montréal | 2002 | 80,000 | 100.0% | IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Royal Bank, Scotiabank |
| Carrefour du Versant | Gatineau | 2003 | 79,000 | 100.0% | IGA (Sobeys), Dollarama, Familiprix, TD Canada Trust, SAQ |
| Place des Cormiers | Sept-Îles | 2004 | 75,000 | 100.0% | Provigo (Loblaws), Bureau en Gros (Staples), SAQ |

Shopping Centre Portfolio – continued

| Property | Location | Year Built or Acquired | Total Square Footage | Percent Occupied | Anchors and Major Tenants |
|----------------------------------|------------------|------------------------|----------------------|------------------|---|
| QUEBEC (cont'd) | | | | | |
| Place Vilamont | Laval | 2002 | 72,000 | 100.0% | Provigo (Loblaws), Jean Coutu, Laurentian Bank |
| Carrefour Don Quichotte | Île Perrot | 2004 | 72,000 | 91.0% | Metro, Familiprix, CIBC |
| Plaza Laval Élysée | Laval | 2004 | 63,000 | 100.0% | Provigo (Loblaws), Pharmaprix (Shoppers Drug Mart), Laurentian Bank |
| Place Lorraine | Lorraine | 2006 | 60,000 | 93.3% | Provigo (Loblaws), National Bank, SAQ |
| Place Michelet | Montréal | 2005 | 59,000 | 100.0% | IGA Extra (Sobeys), TD Canada Trust |
| Galeries Brien | Repentigny | 2002 | 59,000 | 100.0% | IGA (Sobeys), Uniprix |
| Plaza Actuel | Montréal | 2006 | 58,000 | 100.0% | Pontiac Buick, Pizza Hut, Rotisserie St-Hubert |
| Place Cité Des Jeunes | Gatineau | 2001 | 58,000 | 100.0% | Metro, Uniprix |
| Galeries des Chesnaye | Lachenaie | 2005 | 57,000 | 96.1% | IGA (Sobeys), Uniprix, SAQ |
| Place Nelligan ⁽⁴⁾ | Gatineau | 2002 | 57,000 | 100.0% | IGA (Sobeys), Citifinancial |
| Place Seigneuriale | Québec City | 2004 | 54,000 | 92.5% | 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 Kirkland | Kirkland | 2006 | 47,000 | 100.0% | IGA (Sobeys), CIBC, Videotron |
| Place Provencher | Montréal | 2004 | 46,000 | 100.0% | Bureau en Gros (Staples), Uniprix |
| Carrefour St-David | Beauport | 2006 | 42,000 | 100.0% | Metro Plus |
| Place Roland Therrien | Longueuil | 2000 | 42,000 | 100.0% | Super C (Metro) ⁽¹⁾ , Scotiabank, Blockbuster |
| 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 | 24,000 | 100.0% | Pharmaprix (Shoppers Drug Mart), Marché Frais |
| Verdun Shoppers | Montréal | 2005 | 19,000 | 87.4% | Pharmaprix (Shoppers Drug Mart) |
| Queen Mary | Montréal | 2006 | 6,000 | 100.0% | Couche Tard |
| Sub-total – Quebec | | | 4,961,000 | | |
| ALBERTA | | | | | |
| Northgate Centre | Edmonton | 1997 | 511,000 | 84.8% | Safeway, Zellers, Future Shop, Royal Bank, Sport Mart |
| South Park Centre | Edmonton | 1996 | 378,000 | 97.1% | Canadian Tire, Zellers, Toys 'R' Us ⁽¹⁾ , Office Depot (Safeway), Linens 'N Things, Laura's Shoppes, Sport Check |
| Royal Oak ⁽⁶⁾ | Calgary | 2003 | 336,000 | 100.0% | Sobeys, Wal-Mart, London Drugs, Royal Bank, Blockbuster, Royal Oak Clinic, Reitmans, Petcetera, Home Outfitters |
| Red Deer Village | Red Deer | 1999 | 216,000 | 97.0% | Sobeys, Shoppers Drug Mart, Canadian Tire, Mark's Work Wearhouse, Sportmart, TD Canada Trust, Rogers Video, Reitmans |
| Towerlane Mall | Airdrie | 2005 | 208,000 | 87.0% | Safeway, Saan Store, Super Drug Mart, TD Canada Trust, Blockbuster |
| TransCanada Centre | Calgary | 2006 | 187,000 | 97.5% | Safeway, Super Drug Mart |
| 9630 Macleod Trail | Calgary | 2006 | 127,000 | 100.0% | Rona |
| Sherwood Towne Centre | Sherwood Park | 1997 | 120,000 | 100.0% | Home Depot ⁽¹⁾ , Mark's Work Wearhouse, Staples, HomeSense, Royal Bank, Michael's |
| Village Market | Sherwood Park | 1997 | 115,000 | 97.9% | Safeway, London Drugs, Scotiabank |
| McKenzie Towne Centre | Calgary | 2003 | 114,000 | 100.0% | Sobeys, Super Drug Mart, Blockbuster |
| Gateway Village | St. Albert | 1994 | 105,000 | 93.5% | Safeway, CIBC, Royal Bank, Scotiabank |
| Richmond Square | Calgary | 2006 | 102,000 | 100.0% | Canadian Tire ⁽¹⁾ , Home Outfitters, GoodLife Fitness |
| West Lethbridge Towne Centre | Lethbridge | 1998 | 91,000 | 97.5% | Safeway, Home Hardware, Blockbuster |
| Tuscany Market | Calgary | 2003 | 85,000 | 100.0% | Sobeys, Super Drug Mart, Scotiabank |
| Old Strathcona | Edmonton | 2003 | 78,000 | 98.2% | Canada Post, Edward D. Jones |
| Sherwood Centre | Sherwood Park | 1997 | 76,000 | 93.0% | 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 | 99.2% | IGA, Super Drug Mart, Scotiabank |
| Fairmount Shopping Centre | Calgary | 2006 | 58,000 | 68.4% | Royal Bank |
| Uplands Common | North Lethbridge | 2005 | 53,000 | 98.0% | Sobeys |
| Kingsland Shopping Centre | Calgary | 2005 | 45,000 | 97.1% | Shoppers Drug Mart, Starbucks |
| Cochrane City Centre | Cochrane | 2006 | 35,000 | 94.4% | Shoppers Drug Mart, Blockbuster Video, Starbucks |
| Eastview Shopping Centre | Red Deer | 2004 | 34,000 | 100.0% | IGA, Bank of Montreal, 7-Eleven |
| Sub-total – Alberta | | | 3,209,000 | | |

| Property | Location | Year Built or Acquired | Total Square Footage | Percent Occupied | Anchors and Major Tenants |
|-------------------------------------|----------------|------------------------|----------------------|------------------|---|
| BRITISH COLUMBIA | | | | | |
| West Oaks Mall ⁽³⁾ | Abbotsford | 2004 | 274,000 | 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 | 165,000 | 91.8% | London Drugs, Staples, TD Canada Trust, Van City Savings, Starbucks |
| Port Place Shopping Centre | Nanaimo | 2006 | 147,000 | 85.8% | London Drugs, Liquor Distribution Branch, Thrifty Foods |
| 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 | 100.0% | Save-On-Foods, Van City Savings, Starbucks |
| Terra Nova Shopping Centre | Richmond | 2005 | 73,000 | 98.6% | Save-On-Foods, Royal Bank, Coast Capital Savings, Pizza Hut, Starbucks |
| Woodgrove Crossing | Nanaimo | 2006 | 61,000 | 100.0% | Michael's, Sleep Country, Petcetera |
| Coronation Mall | Duncan | 2005 | 57,000 | 100.0% | Save-On-Foods, TD Canada Trust, Blockbuster, BC Liquor Store |
| Broadmoor Shopping Centre | Richmond | 2005 | 43,000 | 84.0% | Royal Bank, Coast Capital Savings |
| Woolridge Linens 'N Things | Coquitlam | 2006 | 38,000 | 100.0% | Linens 'N Things |
| Time Marketplace | Vancouver | 2004 | 37,000 | 100.0% | IGA Marketplace (H.Y. Louie Group), Shoppers Drug Mart |
| Staples Lougheed | Burnaby | 2006 | 32,000 | 92.0% | Staples Business Depot |
| Terminal Park | Nanaimo | 2006 | 28,000 | 100.0% | Bank of Montreal, Liquor Distribution Branch, Save-On-Foods ⁽¹⁾ |
| The Olive | Vancouver | 2006 | 21,000 | 100.0% | Capers |
| Sub-total – British Columbia | | | 1,450,000 | | |
| OTHERS | | | | | |
| Regent Park Shopping Centre | Regina, SK | 1999 | 66,000 | 85.2% | Safeway, Scotiabank |
| Registan Shopping Centre | Regina, SK | 1999 | 26,000 | 100.0% | Safeway, Scotiabank |
| Ropewalk Lane | St. John's, NF | 1997 | 40,000 | 73.8% | |
| Cole Harbour Shopping Centre | Dartmouth, NS | 1997 | 50,000 | 100.0% | Sobeys ⁽¹⁾ , Canadian Tire ⁽¹⁾ , Shoppers Drug Mart, TD Canada Trust |
| Other | | | 106,000 | | |
| Sub-total – Others | | | 288,000 | 88.8% | |
| TOTAL | | | 18,166,000 | 95.7% | |

(1) Tenant (or other) owned.

(2) Interest is leasehold.

(3) 50% interest owned by First Capital Realty Inc.

(4) 75% interest owned by First Capital Realty Inc.

(5) 80% interest owned by First Capital Realty Inc.

(6) 60% interest owned by First Capital Realty Inc.

Management's Responsibility and Auditors' Report

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 14, 2007.

Management is also responsible for the maintenance of financial and operating systems, which includes 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.

As at December 31, 2006, our Chief Executive Officer and Chief Financial Officer evaluated, or caused the evaluation under their direct supervision, the disclosure controls and procedures and the internal controls over financial reporting (as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*) and, based on that assessment, determined that the disclosure controls and procedures were designed and operating effectively and the internal controls over financial reporting were designed effectively.

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, 2006 and 2005 and the consolidated statements of earnings, shareholders' equity 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, 2006 and 2005, 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 5, 2007 (except as to Note 27(f) which is as of March 14, 2007)



Chartered Accountants

Consolidated Balance Sheets

| <i>December 31 (thousands of dollars)</i> | 2006 | 2005 |
|--|---------------------|--------------|
| ASSETS | | |
| Real Estate Investments | | |
| Shopping centres (note 3) | \$ 2,423,801 | \$ 1,939,775 |
| Land and shopping centres under development (note 4) | 178,347 | 136,475 |
| Deferred costs (note 5) | 74,778 | 52,938 |
| Intangible assets (note 6) | 31,868 | 24,340 |
| | 2,708,794 | 2,153,528 |
| Investment in Equity One, Inc. (note 7) | 228,665 | 211,830 |
| Loans, mortgages and other real estate assets (note 8) | 24,056 | 26,912 |
| | 2,961,515 | 2,392,270 |
| Other assets (note 9) | 47,129 | 37,592 |
| Amounts receivable (note 10) | 28,070 | 17,026 |
| Cash and cash equivalents | 6,810 | 5,335 |
| Future income tax assets (note 19) | 17,355 | 17,065 |
| | \$ 3,060,879 | \$ 2,469,288 |
| LIABILITIES | | |
| Mortgages and credit facilities (note 11) | \$ 1,388,650 | \$ 1,297,040 |
| Accounts payable and other liabilities (note 12) | 106,145 | 89,959 |
| Intangible liabilities (note 6) | 18,453 | 12,157 |
| Senior unsecured debentures (note 13) | 399,813 | 100,000 |
| Convertible debentures (note 14) | 192,189 | 96,990 |
| Future income tax liabilities (note 19) | 44,036 | 30,598 |
| | 2,149,286 | 1,626,744 |
| SHAREHOLDERS' EQUITY | 911,593 | 842,544 |
| | \$ 3,060,879 | \$ 2,469,288 |

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:



Chaim Katzman
Director



Dori J. Segal
Director

Consolidated Statements of Earnings

| <i>Years ended December 31 (thousands of dollars, except per share amounts)</i> | 2006 | 2005 |
|---|-------------------|------------|
| REVENUE | | |
| Property rental revenue | \$ 325,980 | \$ 264,840 |
| Interest and other income (note 16) | 6,917 | 3,802 |
| | 332,897 | 268,642 |
| EXPENSES | | |
| Property operating costs | 120,354 | 99,791 |
| Interest expense (note 17) | 93,809 | 80,332 |
| Amortization (note 18) | 68,441 | 50,321 |
| Corporate expenses | 19,282 | 14,372 |
| | 301,886 | 244,816 |
| Equity income from Equity One, Inc. (note 7) | 32,696 | 17,475 |
| Gain on redemption of convertible debentures (note 14) | — | 1,018 |
| Income before income taxes | 63,707 | 42,319 |
| Income taxes (note 19): | | |
| Current | 4,155 | 4,067 |
| Future | 13,593 | 9,056 |
| | 17,748 | 13,123 |
| Net income | \$ 45,959 | \$ 29,196 |
| Net earnings per common share (note 20) | | |
| Basic | \$ 0.62 | \$ 0.72 |
| Diluted | \$ 0.62 | \$ 0.50 |

See accompanying notes to the consolidated financial statements

Consolidated Statements of Shareholders' Equity

| <i>(in thousands of dollars)</i> | Share Capital | Deficit | Contributed Surplus | Convertible Debentures Equity Component | Warrants | Options and Deferred Share Units | Cumulative Currency Translation Adjustment | Total |
|---|------------------|--------------|------------------------|--|-----------|--|---|------------|
| | (note 15) | | (note 14) | (note 14) | (note 15) | (note 15) | (note 15) | |
| Shareholders' equity, December 31, 2005 | \$ 1,022,701 | \$ (191,584) | \$ 19,513 | \$ 3,015 | \$ 472 | \$ 3,004 | \$ (14,577) | \$ 842,544 |
| Changes during the year: | | | | | | | | |
| Net income | — | 45,959 | — | — | — | — | — | 45,959 |
| Dividends | — | (90,942) | — | — | — | — | — | (90,942) |
| Dividends reinvested in common shares | 66,054 | — | — | — | — | — | — | 66,054 |
| Issuance of common shares | 30,445 | — | — | — | — | — | — | 30,445 |
| Payment of interest on convertible debentures | 4,295 | — | — | — | — | — | — | 4,295 |
| Equity component on issue of convertible debentures | — | — | — | 6,015 | — | — | — | 6,015 |
| Exercise of warrants | 4,165 | — | — | — | (236) | — | — | 3,929 |
| Options vested | — | — | — | — | — | 975 | — | 975 |
| Exercise of options | 2,211 | — | — | — | — | (73) | — | 2,138 |
| Deferred share units granted | — | — | — | — | — | 756 | — | 756 |
| Restricted share units | — | — | — | — | — | 1,182 | — | 1,182 |
| Exercise of restricted share units | — | — | — | — | — | (1,219) | — | (1,219) |
| Issue costs | (945) | — | — | — | — | — | — | (945) |
| Change in currency translation adjustment | — | — | — | — | — | — | 407 | 407 |
| Shareholders' equity, December 31, 2006 | \$ 1,128,926 | \$ (236,567) | \$ 19,513 | \$ 9,030 | \$ 236 | \$ 4,625 | \$ (14,170) | \$ 911,593 |

See accompanying notes to the consolidated financial statements

Consolidated Statements of Shareholders' Equity – continued

| <i>(in thousands of dollars)</i> | Share Capital (note 15) | Deficit | Contributed Surplus (note 14) | Convertible Debentures Equity Component (note 14) | Warrants (note 15) | Options and Deferred Share Units (note 15) | Cumulative Currency Translation Adjustment (note 15) | Total |
|---|-------------------------------|--------------|-------------------------------------|---|-----------------------|---|--|------------|
| Shareholders' equity, | | | | | | | | |
| December 31, 2004 | \$ 673,660 | \$ (133,163) | \$ 2,842 | \$ 16,517 | \$ 711 | \$ 1,273 | \$ (13,347) | \$ 548,493 |
| Changes during the year: | | | | | | | | |
| Net income | — | 29,196 | — | — | — | — | — | 29,196 |
| Dividends | — | (87,617) | — | — | — | — | — | (87,617) |
| Dividends reinvested in common shares | 29,174 | — | — | — | — | — | — | 29,174 |
| Issuance of common shares | 51,975 | — | — | — | — | — | — | 51,975 |
| Redemptions of convertible debentures | 246,316 | — | 16,671 | (16,517) | — | — | — | 246,470 |
| Conversion of convertible debentures | 80 | — | — | — | — | — | — | 80 |
| Payment of interest on convertible debentures | 10,465 | — | — | — | — | — | — | 10,465 |
| Equity component on issue of convertible debentures | — | — | — | 3,015 | — | — | — | 3,015 |
| Exercise of warrants | 3,771 | — | — | — | (239) | — | — | 3,532 |
| Options vested | — | — | — | — | — | 294 | — | 294 |
| Exercise of options | 8,592 | — | — | — | — | (153) | — | 8,439 |
| Deferred share units granted | — | — | — | — | — | 693 | — | 693 |
| Restricted share units | — | — | — | — | — | 952 | — | 952 |
| Exercise of deferred share units | — | — | — | — | — | (55) | — | (55) |
| Issue costs | (1,332) | — | — | — | — | — | — | (1,332) |
| Change in currency translation adjustment | — | — | — | — | — | — | (1,230) | (1,230) |
| Shareholders' equity, | | | | | | | | |
| December 31, 2005 | \$ 1,022,701 | \$ (191,584) | \$ 19,513 | \$ 3,015 | \$ 472 | \$ 3,004 | \$ (14,577) | \$ 842,544 |

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

| <i>Years ended December 31 (thousands of dollars)</i> | 2006 | 2005 |
|---|-----------|-----------|
| CASH FLOW PROVIDED BY (USED IN): | | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 45,959 | \$ 29,196 |
| Items not affecting cash (note 22a) | 42,644 | 47,511 |
| Deferred leasing costs | (5,613) | (7,621) |
| Settlement of restricted share units | (1,914) | — |
| Dividends received from Equity One, Inc. | 33,266 | 18,221 |
| Net change in non-cash operating items (note 22b) | 831 | 7,352 |
| Cash provided by operating activities | 115,173 | 94,659 |
| INVESTING ACTIVITIES | | |
| Acquisition of shopping centres (note 3) | (361,329) | (309,317) |
| Acquisition of land for development (note 4) | (34,227) | (52,161) |
| Proceeds from disposition of land for development | 1,236 | — |
| Expenditures on shopping centres | (19,429) | (27,050) |
| Expenditures on land and shopping centres under development | (83,449) | (62,843) |
| Investment in common shares of Equity One, Inc. | (16,936) | (15,882) |
| Decrease in loans and mortgage receivable | 3,560 | 3,065 |
| Investment in marketable securities | (30,627) | (30,509) |
| Proceeds from disposition of marketable securities | 33,635 | 19,056 |
| Cash used in investing activities | (507,566) | (475,641) |
| FINANCING ACTIVITIES | | |
| Mortgage financings and credit facilities | | |
| Borrowings, net of financing costs | 280,904 | 437,950 |
| Principal instalment payments | (29,183) | (23,577) |
| Repayments on maturity | (267,675) | (236,787) |
| Issuance of common shares, net of issue costs | 35,867 | 61,842 |
| Issuance of senior unsecured debentures, net of issue costs (note 13) | 297,035 | 98,912 |
| Issuance of convertible debentures, net of issue costs (note 14) | 99,029 | 95,365 |
| Payment of dividends | (22,466) | (52,363) |
| Cash provided by financing activities | 393,511 | 381,342 |
| Effect of currency rate movement on cash balances | 357 | 92 |
| Increase in cash and cash equivalents | 1,475 | 452 |
| Cash and cash equivalents, beginning of the year | 5,335 | 4,883 |
| Cash and cash equivalents, end of the year (note 22c) | \$ 6,810 | \$ 5,335 |

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

1. SIGNIFICANT ACCOUNTING POLICIES

First Capital Realty Inc. (the “Company”) is 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 as the Company exercises significant influence over this investment.

The Canadian Institute of Chartered Accountants’ Accounting Guideline 15, Consolidation of Variable Interest Entities (“VIEs”), was effective for the Company’s fiscal year commencing January 1, 2005 and was applied on a retroactive basis without restatement to prior periods. The standard considers a VIE to be an entity which does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. Once a VIE has been identified, the standard requires the primary beneficiary of the VIE to consolidate the entity in its financial statements. The primary beneficiary of a VIE, as defined by the standard, is generally the party that is exposed to a majority of the VIE’s expected losses or entitled to a majority of the VIE’s residual returns, or both. The Company determined that the VIE standard did not have material impact on the Company’s financial position or results of operations.

(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:

- i. Land is recorded at its estimated fair value.
- ii. Buildings are recorded at depreciated replacement cost based on estimates of prevailing construction costs for buildings of a similar class and age.
- iii. 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.
- iv. 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.
- v. 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.
- vi. 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.

For practical reasons, the purchase price allocation of property acquisitions which occur at or near period end are estimated based on the Company's history and are subsequently evaluated and adjusted as necessary.

(c) Land and Shopping Centres Under Development

Land and shopping centres under development are stated at cost. 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 defined as the earlier of the completion of tenant improvements or one year from the cessation of major construction activity). 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 tenant improvements 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 cumulative future cash flows of a long-lived asset is less than its carrying value, the long-lived asset is written down to its fair value. Cumulative future cash flows represent 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 less accumulated amortization.

(h) Marketable Securities

Marketable securities are stated at cost and are written down to market value if it is determined that there is a permanent impairment in 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. Allowances given to tenants that are not used to construct improvements at the Company's properties are deducted from rental revenue on a straight-line basis over the term of the tenant's lease.

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 recognized as rental revenue and the rent that is contractually due from the tenants.

Notes to the Consolidated Financial Statements – continued

(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 lives 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 described as Cumulative Currency Translation Adjustment. 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.

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.

- (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.

(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, determining the allocation of convertible debentures between debt and equity, future income taxes and determining fair values of financial instruments.

2. CHANGES IN ACCOUNTING POLICIES

(a) Current Accounting Policy Changes

EIC-159, Conditional Asset Retirement Obligations ("ARO"), was effective April 1, 2006 and required application on a retroactive basis with restatement of prior periods. The initial application of EIC-159 required recording of a liability for an existing ARO and an asset retirement cost capitalized as an increase to the carrying amount of the associated income property. The Company had no material AROs at April 1, 2006, therefore adoption of this standard did not have a material impact on the Company's financial position.

(b) Future Accounting Policy Changes

The Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards that are effective for the Company's fiscal year commencing January 1, 2007. The standards are to be applied on a retroactive basis without restatement of prior periods and consist of Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3865, Hedges.

(i) Comprehensive income – CICA Section 1530

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of hedging instruments. The

Notes to the Consolidated Financial Statements – continued

Company's consolidated financial statements will include a consolidated statement of other comprehensive income while the cumulative amount will be presented as a new category of shareholders' equity.

(ii) Financial instruments – recognition and measurement – CICA Section 3855

CICA Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities classified as held-for-trading are required to be measured at fair value with gains and losses recognized in net income.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in OCI.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost.

The classifications above do not apply to investments where the Company has significant influence that are accounted for using the equity method.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract. Changes in the fair values of derivative instruments are required to be recognized in net income, except for derivatives that are designated as a hedge. The fair value changes for the effective portion of such hedges is to be recognized in OCI.

The standard specifically excludes CICA Section 3065, Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract. The Company will apply the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

(iii) Hedges – CICA Section 3865

CICA Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation.

In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in net earnings. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective as defined by the standard ("effective"), will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion as defined by the standard will be recognized in net earnings. The amounts recognized in OCI will be reclassified to net earnings in those periods in which net earnings is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments will be recognized in OCI and the ineffective portion will be recognized in net earnings.

Deferred gains or losses on the hedging instrument with respect to fair value hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to net earnings over the remaining term of the hedged item for fair value hedges, and for cash flow hedges will be recognized in OCI and reclassified to net earnings in the same period during which the hedged item affects net earnings. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of deficit on transition.

(iv) Effect of adopting CICA Sections 1530, 3855 and 3865

The transition adjustment attributable to the above described standards will be recognized in the opening balance of deficit or accumulated other comprehensive income at January 1, 2007. The amount of the adjustment is currently being quantified by Management.

3. SHOPPING CENTRES

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|-------------------------------|---------------------|--------------|
| Land | \$ 613,367 | \$ 443,440 |
| Buildings and improvements | 1,958,536 | 1,598,619 |
| | 2,571,903 | 2,042,059 |
| Accumulated amortization | (148,102) | (102,284) |
| | \$ 2,423,801 | \$ 1,939,775 |

The Company acquired interests in 25 (2005 – 25) income-producing shopping centres, comprising 1.8 million (2005 – 2.4 million) square feet, as follows:

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|---|-------------------|------------|
| Allocation of purchase price: | | |
| Shopping centres | \$ 434,056 | \$ 400,474 |
| Shopping centres under development | 9,074 | 6,410 |
| Deferred costs | 18,619 | 12,794 |
| Intangible assets | 13,661 | 13,935 |
| Intangible liabilities | (8,378) | (10,339) |
| Total purchase price, including acquisition costs | 467,032 | 423,274 |
| Less mortgages assumed on acquisition and vendor-take-back mortgages | (102,767) | (109,324) |
| Difference between principal amount and fair value of assumed mortgages | (2,936) | (4,633) |
| Net cash outlay for acquisitions | \$ 361,329 | \$ 309,317 |
| The acquisitions were funded as follows: | | |
| Proceeds from mortgages | \$ — | \$ 56,144 |
| Cash and credit facilities | 361,329 | 253,173 |
| Net cash outlay for acquisitions | \$ 361,329 | \$ 309,317 |

Notes to the Consolidated Financial Statements – continued

4. LAND AND SHOPPING CENTRES UNDER DEVELOPMENT

The Company acquired land and shopping centres under development as follows:

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|---|------------------|-----------|
| Purchase price of land and shopping centres acquired for development or redevelopment | \$ 37,177 | \$ 61,114 |
| Less mortgages assumed on acquisition and vendor-take-back mortgages | (2,950) | (8,953) |
| Net cash outlay for acquisitions, funded through cash and credit facilities | \$ 34,227 | \$ 52,161 |

In addition, during the year ended December 31, 2006, the Company completed developments with a book value of \$84.5 million (2005 – \$68.9 million) that were transferred to shopping centres.

Interest expense and incremental direct internal costs capitalized to development properties during the year ended December 31, 2006 totalled \$8.8 million (2005 – \$5.8 million) and \$2.7 million (2005 – \$2.1 million), respectively. The costs to complete projects currently under development are estimated at \$61.7 million.

5. DEFERRED COSTS

| <i>(thousands of dollars)</i> | 2006 | | |
|--|------------------|--------------------------|------------------|
| | Gross Book Value | Accumulated Amortization | Net Book Value |
| Deferred leasing costs and tenant improvements incurred through leasing activities | \$ 55,512 | \$ 14,844 | \$ 40,668 |
| Tenant improvement costs recorded on acquisition of shopping centres | 42,245 | 8,135 | 34,110 |
| | \$ 97,757 | \$ 22,979 | \$ 74,778 |

| <i>(thousands of dollars)</i> | 2005 | | |
|--|------------------|--------------------------|----------------|
| | Gross Book Value | Accumulated Amortization | Net Book Value |
| Deferred leasing costs and tenant improvements incurred through leasing activities | \$ 43,141 | \$ 11,100 | \$ 32,041 |
| Tenant improvement costs recorded on acquisition of shopping centres | 24,364 | 3,467 | 20,897 |
| | \$ 67,505 | \$ 14,567 | \$ 52,938 |

Incremental direct internal costs related to leasing activities totalling \$3.7 million (2005 – \$2.8 million) were capitalized during the year ended December 31, 2006.

6. INTANGIBLE ASSETS AND LIABILITIES

| <i>(thousands of dollars)</i> | 2006 | | |
|-------------------------------|------------------|--------------------------|------------------|
| | Gross Book Value | Accumulated Amortization | Net Book Value |
| Intangible Assets | | | |
| Lease origination costs | \$ 33,456 | \$ 7,787 | \$ 25,669 |
| Above-market in-place leases | 2,391 | 837 | 1,554 |
| Tenant relationships | 5,499 | 854 | 4,645 |
| | \$ 41,346 | \$ 9,478 | \$ 31,868 |
| Intangible Liabilities | | | |
| Below-market in-place leases | \$ 22,001 | \$ 3,548 | \$ 18,453 |

| <i>(thousands of dollars)</i> | 2005 | | |
|-------------------------------|------------------|--------------------------|------------------|
| | Gross Book Value | Accumulated Amortization | Net Book Value |
| Intangible Assets | | | |
| Lease origination costs | \$ 22,815 | \$ 3,547 | \$ 19,268 |
| Above-market in-place leases | 2,285 | 496 | 1,789 |
| Tenant relationships | 3,679 | 396 | 3,283 |
| | \$ 28,779 | \$ 4,439 | \$ 24,340 |
| Intangible Liabilities | | | |
| Below-market in-place leases | \$ 14,072 | \$ 1,915 | \$ 12,157 |

Values ascribed to above- and below-market in-place leases are amortized to property rental revenue.

7. INVESTMENT IN EQUITY ONE, INC.

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|---|-------------------|-------------------|
| Investment in Equity One, Inc., beginning of year | \$ 211,830 | \$ 203,988 |
| Equity income | 32,696 | 17,475 |
| Less dividends received | (33,265) | (18,221) |
| Purchase of Equity One, Inc., common shares (a) | 16,936 | 15,882 |
| Cumulative currency effect | 468 | (7,294) |
| Investment in Equity One, Inc., end of year (b) | \$ 228,665 | \$ 211,830 |
| Weighted average ownership interest in Equity One | 18% | 18% |

Notes to the Consolidated Financial Statements – continued

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 2006, the Company’s U.S. subsidiaries acquired 562,700 common shares of Equity One at an average price of US\$25.83 per share. In 2005, the Company’s U.S. subsidiaries acquired 595,992 common shares of Equity One at an average price of US\$22.27 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, 2006 was US\$26.66 (2005 – US\$23.12) per share. The book value per share of the Company’s investment in Equity One at December 31, 2006 is US\$14.11 (2005 – US\$13.65). At December 31, 2006, 72.7 million (2005 – 74.9 million) shares of Equity One were outstanding, of which 13.9 million (2005 – 13.3 million) shares were held by the Company.

8. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|------------------|------------------|
| Loans and mortgages receivable from development partners (a) | \$ 11,031 | \$ 14,617 |
| Real estate marketable securities (b) | 13,025 | 12,295 |
| | \$ 24,056 | \$ 26,912 |

- (a) The Company has funded its partners’ share of certain development activities. The loans bear interest at an average rate of 8.4% (2005 – 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

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|------------------|------------------|
| Deferred financing, issue and interest rate hedge costs (net of accumulated amortization of \$7,066 (2005 – \$6,851)) | \$ 16,701 | \$ 13,721 |
| Prepaid expenses and deposits related to property operations | 19,838 | 16,311 |
| Deposits and costs on properties under option | 6,176 | 5,292 |
| Other assets (net of accumulated amortization of \$1,247 (2005 – \$1,082)) | 4,414 | 2,268 |
| | \$ 47,129 | \$ 37,592 |

10. AMOUNTS RECEIVABLE

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|------------------|------------------|
| Trade receivables | \$ 11,786 | \$ 7,756 |
| Rent revenue recognized on a straight-line basis | 14,998 | 8,888 |
| Corporate and other amounts receivable | 1,286 | 382 |
| | \$ 28,070 | \$ 17,026 |

11. MORTGAGES AND CREDIT FACILITIES

| <i>(thousands of dollars)</i> | 2006 | | |
|-------------------------------|--------------|------------|--------------|
| | Canada | U.S. | Total |
| Fixed rate | \$ 1,190,438 | \$ 52,443 | \$ 1,242,881 |
| Floating rate | 35,493 | 110,276 | 145,769 |
| | \$ 1,225,931 | \$ 162,719 | \$ 1,388,650 |

| <i>(thousands of dollars)</i> | 2005 | | |
|-------------------------------|--------------|------------|--------------|
| | 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 |

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

At December 31, 2006, the Company had \$137.8 million of undrawn credit facilities, which were secured by certain shopping centres, available for acquisitions, development, and general corporate purposes.

Of the net book value of real estate assets of \$2.7 billion as at December 31, 2006, approximately \$2.1 billion has been pledged as security under mortgages and credit facilities.

Canada

Fixed rate financing bears interest at a weighted average fixed rate of 6.36% (2005 – 6.5%) and matures in years ranging from 2007 to 2025. Floating rate financing bears interest at floating rates determined by reference to Canadian prime lenders or bankers' acceptance rates ranging from 5.4% to 6.0% and matures in 2007.

Principal repayments of Canadian dollar mortgages and credit facilities outstanding as at December 31, 2006 are as follows:

| <i>(thousands of dollars)</i> | Principal | | Total | Weighted Average Interest Rate |
|-------------------------------|---------------------|------------------|--------------|--------------------------------|
| | Instalment Payments | Balance Maturing | | |
| 2007 | \$ 33,020 | \$ 141,590 | \$ 174,610 | 6.14% |
| 2008 | 28,476 | 69,143 | 97,619 | 6.03% |
| 2009 | 26,984 | 47,206 | 74,190 | 6.12% |
| 2010 | 26,158 | 86,615 | 112,773 | 6.66% |
| 2011 | 24,638 | 62,672 | 87,310 | 7.17% |
| Thereafter | 80,096 | 599,333 | 679,429 | 6.30% |
| | \$ 219,372 | \$ 1,006,559 | \$ 1,225,931 | 6.34% |

In March 2007, the Company negotiated a new unsecured credit facility described in note 27(d).

United States

Fixed rate financing is comprised of LIBOR swap agreements on a notional US\$45 million (2005 – US\$55 million) at an average fixed rate of 4.37% (2005 – 4.4%) plus applicable spreads and matures by 2015. Floating rate financing of US\$78.7 million (US\$67.5 million) bears interest at the LIBOR plus 145 basis points and matures in 2010. Floating rate financing of \$17.0 million

Notes to the Consolidated Financial Statements – continued

(US\$14.6 million) bears interest at the LIBOR plus 140 basis points and matures in 2011. The remainder of the floating rate debt bears interest at rates determined by reference to bankers' acceptance rates or U.S. prime lenders ranging from 6.25% to 8.75% and matures in 2007. In 2005, floating rate financing of \$73.9 million (US\$63.5 million) bore interest at LIBOR plus 145 basis points and floating rate financing of \$16.8 million (US\$14.4 million) bore interest at U.S. prime.

Principal repayments of U.S. dollar financing outstanding as at December 31, 2006 are due as follows:

| <i>(thousands of dollars)</i> | Principal Instalment Payments | Balance Maturing | Total |
|-------------------------------|-------------------------------------|-------------------|-------------------|
| 2007 | \$ 7,866 | \$ 14,567 | \$ 22,433 |
| 2008 | 7,866 | — | 7,866 |
| 2009 | 7,866 | — | 7,866 |
| 2010 | 4,370 | 106,635 | 111,005 |
| 2011 | 219 | 13,330 | 13,549 |
| | \$ 28,187 | \$ 134,532 | \$ 162,719 |

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|-------------------|-----------|
| Trade payables and accruals | \$ 50,314 | \$ 46,070 |
| Accrued interest | 15,187 | 7,800 |
| Dividends payable | 23,342 | 21,194 |
| Tenant deposits | 6,470 | 4,556 |
| Differences between principal amounts and fair values of assumed mortgages | 8,573 | 7,705 |
| Other liabilities | 2,259 | 2,634 |
| | \$ 106,145 | \$ 89,959 |

Differences between principal amounts and fair values of assumed mortgages are credited to interest expense over the term of the related mortgages.

13. SENIOR UNSECURED DEBENTURES

| <i>(thousands of dollars)</i> | | | | | | 2006 | 2005 |
|-------------------------------|--------------------|------------------|------------------|----------------|------------------|-------------------|------------|
| Series | Date of Issue | Maturity Date | Cash Proceeds | Coupon Rate | Implicit Rate | | |
| A | June 21, 2005 | June 21, 2012 | \$ 99,980 | 5.080% | 5.083% | \$ 100,000 | \$ 100,000 |
| B | March 30, 2006 | March 30, 2011 | \$ 99,830 | 5.250% | 5.290% | 99,851 | — |
| C | August 1, 2006 | December 1, 2011 | \$ 99,980 | 5.490% | 5.495% | 99,981 | — |
| D | September 18, 2006 | April 1, 2013 | \$ 99,980 | 5.340% | 5.344% | 99,981 | — |
| | | | | | | \$ 399,813 | \$ 100,000 |

Each series was issued at a par value of \$100 million, with interest payable semi-annually.

14. CONVERTIBLE DEBENTURES

| <i>(thousands of dollars)</i> | | | | 2006 | | | 2005 | | |
|-------------------------------|--------------------|---------------|----------|-------------------|-------------------|-----------------|------------|-----------|----------|
| Date of Issue | Maturity Date | Interest Rate | | Principal | Liability | Equity | Principal | Liability | Equity |
| | | Coupon | Implicit | | | | | | |
| December 19, 2005 | September 30, 2017 | 5.50% | 5.86% | \$ 100,000 | \$ 97,176 | \$ 3,015 | \$ 100,000 | \$ 96,990 | \$ 3,015 |
| November 30, 2006 | September 30, 2017 | 5.50% | 6.14% | 100,000 | 95,013 | 6,015 | — | — | — |
| | | | | \$ 200,000 | \$ 192,189 | \$ 9,030 | \$ 100,000 | \$ 96,990 | \$ 3,015 |

On December 19, 2005, the Company issued \$100 million of 5.50% convertible unsecured subordinated debentures due September 30, 2017. On November 30, 2006, the Company issued \$100 million for total proceeds of \$101 million, via private placement, of 5.50% convertible unsecured subordinated debentures due September 30, 2017, with the same terms and conditions as those issued on December 19, 2005. Fifty million dollars of the principal amount of these debentures were issued to subsidiaries of the Company's major shareholder, Gazit-Globe ("Gazit") on the same terms as the other investors. The debentures issued in 2005 and 2006 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 issuance of common shares valued in the same fashion.

On September 30, 2005, the Company redeemed an 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 an 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.

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 2006, 178,373 (2005 – 543,547) common shares were issued for \$4.3 million (2005 – \$10.5 million) to pay interest to holders of convertible debentures.

As at December 31, 2006, subsidiaries of the Company's major shareholder, Gazit-Globe ("Gazit"), owned \$66.4 million principal amount of the outstanding convertible debentures. Of the convertible debentures redeemed on March 31, 2005 and September 30, 2005, Gazit owned, immediately prior to redemption, \$88.0 million and \$39.2 million, respectively.

Notes to the Consolidated Financial Statements – continued

15. SHAREHOLDERS' EQUITY

(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 <i>(thousands of dollars)</i> |
|---|----------------------------|---|
| 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 | — | (1,332) |
| Issued and outstanding at December 31, 2005 | 70,645,834 | \$ 1,022,701 |
| Issuance of common shares (b) | 1,135,000 | 29,226 |
| Payment of interest on convertible debentures (note 14) | 178,373 | 4,295 |
| Exercise of warrants (c) | 332,890 | 4,165 |
| Exercise of options (d) | 147,365 | 2,211 |
| Private placement of shares (b) | 70,000 | 1,219 |
| Dividends reinvested in common shares (f) | 2,788,446 | 66,054 |
| Issue costs | — | (945) |
| Issued and outstanding at December 31, 2006 | 75,297,908 | \$ 1,128,926 |

(b) Issuance of Common Shares

On April 11, 2006, the Company issued 1,000,000 common shares at a price of \$25.75 per share for gross proceeds of \$25.75 million.

On May 5, 2006, the Company completed the sale of 135,000 common shares at a price of \$25.75 per share for gross proceeds of \$3.48 million, pursuant to an over-allotment option, granted to underwriters, in connection with the April 11, 2006 share offering.

On December 14, 2006, the Company issued 70,000 shares to two members of the Company's management at a price of \$27.34 per share for gross proceeds of \$1.9 million.

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.

(c) Warrants

During 2006, a total of 332,890 (2005 – 299,311) share purchase warrants were exercised at \$11.80 per share resulting in proceeds to the Company of \$4.0 million (2005 – \$3.5 million). The equity component of the warrants exercised, \$0.2 million (2005 – \$0.2 million), was transferred to share capital.

At December 31, 2006, there were 295,204 outstanding share purchase warrants (2005 – 628,094) 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 (2005 – 3,625,000) common share options to the employees, officers and directors of the Company and third-party service providers. As of December 31, 2006, 834,572 (2005 – 1,405,800) common share options were available to be granted. Options granted by the Company generally expire ten years from the date of grant and vest over three to four years. The outstanding options have exercise prices ranging from \$12.42 to \$25.75. In 2006, \$1.0 million (2005 – \$0.3 million) had been recorded as an expense due to the vesting of options granted after January 1, 2003.

| | 2006 | | 2005 | |
|---|----------------------|---------------------------------|----------------------|---------------------------------|
| | Common Share Options | Weighted Average Exercise Price | Common Share Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 1,145,105 | \$ 17.46 | 1,257,550 | \$ 14.49 |
| Granted | 620,682 | \$ 25.01 | 501,700 | \$ 20.75 |
| Exercised | (147,365) | \$ 14.50 | (601,645) | \$ 14.03 |
| Cancelled | (49,454) | \$ 21.99 | (12,500) | \$ 15.65 |
| Outstanding, end of year | 1,568,968 | \$ 20.58 | 1,145,105 | \$ 17.46 |
| Options vested, end of year | 580,626 | \$ 16.36 | 468,505 | \$ 14.28 |
| Weighted average remaining life (years) | 8.2 | | 8.4 | |

During the year ended December 31, 2006, the Company granted 620,682 options (2005 – 501,700 options) which had an approximate fair value of \$1.5 million (2005 – \$0.6 million) at the time of issue.

The fair value associated with the options issued was calculated using the Binomial Model for option valuation, assuming an average volatility of 14% (2005 – 15%) 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). Prior to 2006, the Black-Scholes Model was used. The effect of the change in the model used did not have a material effect on the recorded expense.

(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, 2006, 64,240 units (2005 – 49,854 units) have been granted under the Directors Deferred Share Unit Plan, and \$0.4 million (2005 – \$0.3 million) has been recorded as an expense.

During 2006, 76,000 units (2005 – 60,000 units) were granted under the RSU plans, the number of units issued as a result of dividends declared on the common shares of the Company was 11,813 (2005 – 11,223) and 70,000 units (2005 – nil) were settled. At December 31, 2006, 215,270 units (2005 – 197,458 units) were outstanding under RSU plans. The Company recorded an expense of \$1.2 million in 2006 (2005 – \$1.0 million) for the grants under the CEO RSU Plan and Employee RSU Plan.

Notes to the Consolidated Financial Statements – continued

(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 preceding 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, 2006 was US\$1.00 = Cdn\$1.17 (December 31, 2005 – US\$1.00 = Cdn\$1.16). The average rate of exchange for 2006 was US\$1.00 = Cdn\$1.13 (2005 – US\$1.00 = Cdn\$1.21).

16. INTEREST AND OTHER INCOME

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|-----------------|-----------------|
| Gains on sale of marketable securities | \$ 4,221 | \$ 89 |
| Interest, dividend and distribution income from marketable securities and cash investments | 1,335 | 1,747 |
| Gains on land and property sales | 137 | 202 |
| Unrealized losses on certain interest rate swaps | (389) | — |
| Interest income from development loans | 683 | 1,564 |
| Income from non-recourse cash flow participation loans | 538 | 123 |
| Other income | 392 | 77 |
| | \$ 6,917 | \$ 3,802 |

17. INTEREST

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|------------------|------------------|
| Mortgage and credit facility interest expense | \$ 74,678 | \$ 67,856 |
| Senior unsecured debenture interest expense | 12,935 | 2,710 |
| Convertible debenture interest expense | 6,196 | 9,766 |
| Interest expense | 93,809 | 80,332 |
| Convertible debenture interest paid in common shares | (4,295) | (10,465) |
| Change in accrued interest | (6,078) | (34) |
| Implicit interest rate in excess of coupon rate on convertible and senior unsecured debentures | (242) | (1,438) |
| Interest paid in excess of implicit interest on assumed mortgages | 2,323 | 1,710 |
| Interest capitalized to land and shopping centres under development | 8,776 | 5,830 |
| Cash interest paid | \$ 94,293 | \$ 75,935 |

18. AMORTIZATION

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|------------------------------------|-----------|-----------|
| Shopping centres | \$ 46,441 | \$ 36,854 |
| Deferred costs | 12,118 | 8,467 |
| Intangible assets | 5,693 | 2,495 |
| Amortization of real estate assets | 64,252 | 47,816 |
| Deferred financing fees | 3,178 | 2,096 |
| Other assets | 1,011 | 409 |
| | \$ 68,441 | \$ 50,321 |

19. INCOME 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, partnership ventures, and the parent company.

The following table summarizes the provision for income taxes:

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|-----------|-----------|
| Provision for income taxes on income at the combined Canadian federal and provincial income tax rate of 33.4% (2005 – 35.3%) | \$ 21,304 | \$ 14,921 |
| Increase (decrease) in the provision for income taxes due to the following items: | | |
| U.S. operations | (3,430) | (1,782) |
| Non-deductible interest expense | 81 | 507 |
| Change in future income tax rate | (573) | 21 |
| Recognition of future tax assets related to convertible debenture redemptions | — | (2,657) |
| Large corporations tax | — | 1,631 |
| Other | 366 | 482 |
| Income taxes | \$ 17,748 | \$ 13,123 |

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

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|---------------------------------------|-----------|-----------|
| Losses available for carry-forward | \$ 16,613 | \$ 16,119 |
| Other assets | — | 153 |
| Canadian and U.S. minimum tax credits | 742 | 793 |
| | \$ 17,355 | \$ 17,065 |

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

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|-------------------------------|-----------|-----------|
| Investments | \$ 13,880 | \$ 13,880 |
| Shopping centres | 24,369 | 15,085 |
| Other | 5,787 | 1,633 |
| | \$ 44,036 | \$ 30,598 |

Notes to the Consolidated Financial Statements – continued

At December 31, 2006, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately \$51.0 million (2005 – \$42.0 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, 2007 and December 31, 2026.

20. PER SHARE CALCULATIONS

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

| <i>(thousands of dollars, except per share amounts)</i> | 2006 | 2005 |
|---|-------------------|------------|
| Net income | \$ 45,959 | \$ 29,196 |
| Contributed surplus on settlement of convertible debentures | — | 16,671 |
| Basic net income available to common shareholders | 45,959 | 45,867 |
| 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 | \$ 45,959 | \$ 34,353 |
| Denominator | | |
| Weighted average shares outstanding for basic per share amounts | 73,773,554 | 63,424,822 |
| Convertible debentures | — | 4,897,294 |
| Outstanding warrants | 251,070 | 336,307 |
| Outstanding options | 297,200 | 234,866 |
| Denominator for diluted net income available to common shareholders | 74,321,824 | 68,893,289 |
| Basic earnings per share | \$ 0.62 | \$ 0.72 |
| Diluted earnings per share | \$ 0.62 | \$ 0.50 |

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

| | Exercise Price | 2006 | 2005 |
|-------------------------------|----------------|------------------|-----------|
| Convertible debentures – 5.5% | \$ 27.00 | 7,407,406 | 3,703,703 |
| Common share options | \$ 25.75 | 114,212 | — |
| Common share options | \$ 25.50 | 22,000 | — |
| Common share options | \$ 25.00 | 133,620 | — |
| Common share options | \$ 24.75 | 335,930 | — |
| Common share options | \$ 20.80 | — | 486,700 |

21. 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 \$1.6 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 investing in well-located properties in urban markets that attract quality tenants, ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. 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 may enter into forward foreign exchange contracts, which may 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.

Remaining outstanding forward exchange contracts expired in 2005 and no new contracts were entered into since.

(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, 2006 and 2005 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 mortgage liabilities and credit facilities exceeds the recorded value by approximately \$65 million due to changes in interest rates since the dates on which the individual mortgages were assumed (2005 – \$60 million). The fair value of the senior unsecured debentures is approximately \$402 million at December 31, 2006 (2005 – \$99 million). Based on publicly traded listing prices, as at December 31, 2006, the market value of the principal amount of the convertible debentures was \$210 million (2005 – \$98 million).

Notes to the Consolidated Financial Statements – continued

22. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash from operating activities

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|---|------------------|------------------|
| Amortization | \$ 68,441 | \$ 50,321 |
| Amortization of above- and below-market leases | (1,643) | (1,130) |
| Rent revenue recognized on a straight-line basis | (5,839) | (3,677) |
| Gain on disposition of real estate | (137) | (202) |
| Gain on sale of marketable securities | (4,221) | (89) |
| Gain on redemption of convertible debentures | — | (1,018) |
| Non-cash compensation expenses | 2,543 | 1,532 |
| Interest paid in excess of implicit interest on assumed mortgages | (2,323) | (1,710) |
| Debenture interest in excess of coupon | 242 | 1,438 |
| Convertible debenture interest paid in common shares | 4,295 | 10,465 |
| Equity income from Equity One, Inc. | (32,696) | (17,475) |
| Future income taxes | 13,593 | 9,056 |
| Unrealized losses on certain interest rate swaps | 389 | — |
| | \$ 42,644 | \$ 47,511 |

(b) Net change in non-cash operating items

The net change in non-cash operating assets and liabilities consists of the following:

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|--|---------------|-----------------|
| Amounts receivable | \$ (4,936) | \$ 937 |
| Prepaid expenses | (1,715) | 2,408 |
| Furniture, fixtures and equipment | (3,289) | (1,202) |
| Accounts payable and accrued liabilities | 11,249 | 11,742 |
| Tenant security and other deposits | 295 | (6,416) |
| Other working capital changes | (773) | (117) |
| | \$ 831 | \$ 7,352 |

(c) Cash and cash equivalents

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|-------------------------------|-----------------|-----------------|
| Cash | \$ 6,315 | \$ 4,442 |
| Term deposits | 495 | 893 |
| | \$ 6,810 | \$ 5,335 |

(d) Interest and income taxes

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|-------------------------------|-----------|-----------|
| Cash income taxes paid | \$ 4,051 | \$ 4,495 |
| Cash interest paid (note 17) | \$ 94,293 | \$ 75,935 |

23. 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. The accounting policies applied in the preparation of the segmented information are the same as those described in Note 1 – Significant Accounting Policies.

Income by geographic segment for the year ended December 31, 2006, is summarized as follows:

| <i>(thousands of dollars)</i> | Canada | U.S. | Total |
|-------------------------------------|------------|-----------|------------|
| Property rental revenue | \$ 325,980 | \$ — | \$ 325,980 |
| Property operating costs | 120,354 | — | 120,354 |
| Income before the undernoted items | 205,626 | — | 205,626 |
| Equity income from Equity One, Inc. | — | 32,696 | 32,696 |
| Interest and other income | 6,903 | 14 | 6,917 |
| Interest expense | 84,075 | 9,734 | 93,809 |
| Corporate expenses | 18,818 | 464 | 19,282 |
| Income before amortization | 109,636 | 22,512 | 132,148 |
| Amortization | 68,232 | 209 | 68,441 |
| Income before income taxes | \$ 41,404 | \$ 22,303 | \$ 63,707 |

Income by geographic segment for the year ended December 31, 2005, is summarized as follows:

| <i>(thousands of dollars)</i> | Canada | U.S. | Total |
|--|------------|----------|------------|
| Property rental revenue | \$ 264,840 | \$ — | \$ 264,840 |
| Property operating costs | 99,791 | — | 99,791 |
| Income before the undernoted items | 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 |
| Gain on redemption of convertible debentures | 1,018 | — | 1,018 |
| Income before amortization | 83,482 | 9,158 | 92,640 |
| Amortization | 50,178 | 143 | 50,321 |
| Income before income taxes | \$ 33,304 | \$ 9,015 | \$ 42,319 |

Notes to the Consolidated Financial Statements – continued

24. PROPORTIONATE CONSOLIDATION

The Company is a participant in 15 (2005 – 17) partnership, co-ownership and limited liability corporate ventures that own land, shopping centres, and shopping centres under development. The Company's participation in these entities 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:

| <i>(thousands of dollars)</i> | 2006 | 2005 |
|----------------------------------|------------|-------------|
| Assets | \$ 168,107 | \$ 176,791 |
| Liabilities | \$ 105,470 | \$ 116,482 |
| Revenues | \$ 25,726 | \$ 22,865 |
| Expenses | 20,770 | 18,821 |
| Net income | \$ 4,956 | \$ 4,044 |
| Cash flow provided by (used in): | | |
| Operating activities | \$ 8,467 | \$ 7,442 |
| Investing activities | \$ (8,454) | \$ (54,013) |
| Financing activities | \$ (2,415) | \$ 28,567 |

Cash held pursuant to terms of joint venture agreements amounts to \$2.4 million (2005 – \$3.5 million).

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 25 (c)).

25. COMMITMENTS AND CONTINGENCIES

- (a) The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of Management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the Company.
- (b) On October 16, 2006, First Capital Realty and First Capital (Royal Oak) Corporation (a wholly-owned nominee subsidiary of First Capital Realty) were named as defendants in a lawsuit commenced by Rencor Developments Inc. and Rencor Developments (Royal Oak) Inc. (collectively, "Rencor"). First Capital Realty and Rencor are joint venture partners in the Royal Oak Shopping Centre located in Calgary, Alberta, in which First Capital Realty owns a 60% undivided interest and Rencor owns the remaining 40% undivided interest. The Statement of Claim seeks damages for alleged breaches by First Capital Realty of certain agreements relating to the ownership and operation of the Royal Oak Shopping Centre. First Capital Realty believes the lawsuit to be frivolous and without merit and intends to vigorously defend against the allegations made in the Statement of Claim. Accordingly, as of December 31, 2006, First Capital Realty has not recorded any loss provision with respect to this claim in its financial statements.
- (c) The Company is contingently liable, jointly and severally, for approximately \$48.2 million (2005 – \$49.3 million) to various lenders in connection with loans advanced to its joint venture partners secured by the partners' interest in the co-ownerships.
- (d) The Company is also contingently liable for letters of credit in the amount of \$5.5 million (2005 – \$7.3 million) issued in the ordinary course of business.
- (e) The Company has obligations as lessee under long-term leases for land. Annual commitments under these ground leases are approximately \$0.8 million with a total obligation of \$15.9 million.

- (f) In two of the Company's shopping centres, the grocery store anchor tenant has a right to purchase their premises on terms that are potentially favourable to the tenants.

26. RELATED PARTY TRANSACTIONS

A subsidiary of the Company's majority shareholder, Gazit-Globe ("Gazit"), reimburses the Company for certain accounting and administrative services provided by the Company. The total amount reimbursed during 2006 was \$175,000 (2005 – \$120,000). At December 31, 2006, \$442,000 due from Gazit was included in amounts receivable (2005 – nil) and collected subsequent to year end.

In addition, subsidiary companies of Gazit subscribe to the Company's convertible debentures as described in Note 14.

27. SUBSEQUENT EVENTS

- (a) Since January 1, 2007, First Capital Realty has invested \$15.5 million in the acquisition of two development sites totalling 38.6 acres of commercial land.
- (b) On January 31, 2007, the Company issued \$100 million of Series E senior unsecured debentures at a coupon rate of 5.36% for net proceeds of \$99.3 million. These debentures mature January 31, 2014 with interest payable on January 31 and July 31 each year.
- (c) On February 27, 2007, the Company announced that it will pay the interest due on March 31, 2007 to holders of both classes of its 5.50% convertible unsecured subordinated 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 Toronto Stock Exchange calculated for the 20 consecutive trading days ending on March 23, 2007. The interest payment due is approximately \$5.5 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.

- (d) On March 5, 2007, the Company completed a \$250 million three-year unsecured revolving credit facility syndicated with six financial institutions. Two of the Company's three existing secured credit facilities were cancelled effective the same date. As of March 5, 2007, properties with a gross book value of \$195.4 million were released as security under the existing secured credit facilities. The remaining secured facility will expire on April 30, 2007 and will not be renewed. Properties with a gross book value of \$29.5 million will be released as security on its expiry.
- (e) The Company announced that it will pay a first quarter dividend of \$0.31 per common share on April 5, 2007 to shareholders of record on March 28, 2007.
- (f) On March 14, 2007, the Company acquired Westmount Shopping Centre located in northwest Edmonton, Alberta. The property is situated on 30.5 acres of land and on completion of redevelopment will consist of 511,000 square feet. The purchase price of \$70 million, including closing costs, was satisfied in cash.

28. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to reflect the presentation adopted in the current year.

Corporate Governance

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

- The Board of Directors and management believe that sound and effective corporate governance is essential to the Company's performance.
- The Board 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. Both of these committees operate 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 benefits 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. The Compensation and Governance Committee also assesses on a periodic basis, the competencies, skills and effectiveness of the Board, Board Committees and individual Board members, as well as the operations of the Board and Board Committees.

- The Board has also established an Executive Committee. The Executive Committee consists of the Chairman of the Board, the President of the Corporation and one independent director. The Chairman of the Board serves as Chairman of the Executive Committee.

The Executive Committee operates under a written charter and has the authority to, on behalf of the Board, and subject to certain monetary limits, approve acquisitions and dispositions of properties; development budgets including the cost of land; acquisitions and dispositions of raw land; investments in and divestitures of marketable securities; and entering into derivatives for hedging purposes only.

Board of Directors


CHAIM KATZMAN

*Chairman
First Capital Realty Inc.
North Miami Beach, Florida*

Chairman of the Board. Also serves as Chairman 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 and Teranet, Inc. and Trustee of 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

*Barrister and Solicitor
Thornhill, Ontario*

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.


GARY M. SAMUEL

*Partner, Crown Realty Partners
Toronto, Ontario*

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

Shareholder Information

HEAD OFFICE

85 Hanna Avenue, Suite 400, Toronto, Ontario M6K 3S3

Tel: 416 504 4114

Fax: 416 941 1655

MONTREAL OFFICE

2620 de Salaberry, Suite 201

Montreal, Quebec H3M 1L3

Tel: 514 332 0031

Fax: 514 332 5135

CALGARY OFFICE

Trans Canada Centre, Unit 158, 1440-52nd Street NE

Calgary, Alberta T2A 4T8

Tel: 403 257 6888

Fax: 403 257 6899

VANCOUVER OFFICE

Terra Nova Village

3671 Westminster Hwy, Suite 240

Richmond, British Columbia V7C 5V2

Tel: 604 278 0056

Fax: 604 278 3364

ANNUAL SHAREHOLDERS' MEETING

May 24, 2007

The Design Exchange

234 Bay Street

Toronto, Ontario

at 1:00 p.m.

TORONTO STOCK EXCHANGE LISTINGS

Common Shares: FCR

5.50% Convertible Cdn Debentures: FCR.DB.A

5.50% Convertible US Debentures: FCR.DB.B

Warrants: FCR.WT

TRANSFER AGENT

Computershare Trust Company of Canada

100 University Avenue, 11th Floor

Toronto, Ontario M5J 2Y1

Tel: 416 981 9633

(Toll Free) 1.800.663.9097

LEGAL COUNSEL

Torys LLP

Toronto, Ontario

Davies Ward Phillips & Vineberg LLP

Montreal, Quebec

AUDITORS

Deloitte & Touche LLP

Toronto, Ontario

OFFICERS

Dori J. Segal

President and CEO

Sylvie Lachance

Executive Vice President

Karen H. Weaver

Chief Financial Officer

Brian Kozak

Vice President, Western Canada

Barbara A. Silverberg

General Counsel and Corporate Secretary



Shopping For Everyday Life[®]

www.firstcapitalrealty.ca



Carrefour St. David
Avenue St. David Ouest &
rue Clemenceau,
Québec City



Tuscany Market
Tuscany Boulevard &
Tuscany Way NW,
Calgary



Olde Oakville Market Place
Cornwall Road &
Trafalgar Road,
Oakville



Shops at King Liberty
King Street West &
Atlantic Avenue,
Toronto



Terra Nova
No.1 Road &
Westminster Hwy.,
Richmond



Place Fleury
Papineau & rue Fleury,
Montréal

First Capital Realty Inc.

Head Office
85 Hanna Avenue, Suite 400
Toronto, Ontario
M6K 3S3
t. 416.504.4114
f. 416.941.1655