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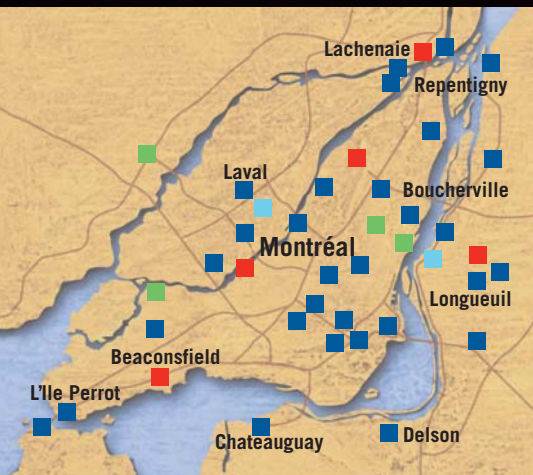
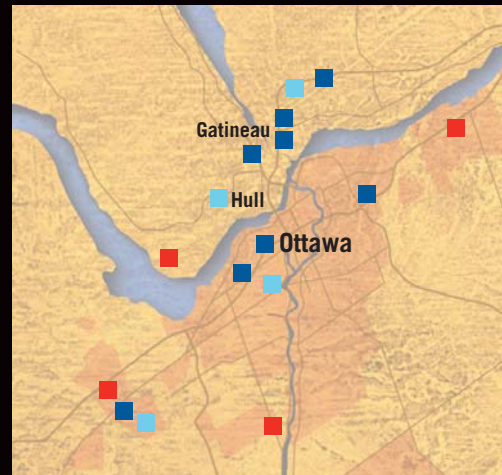
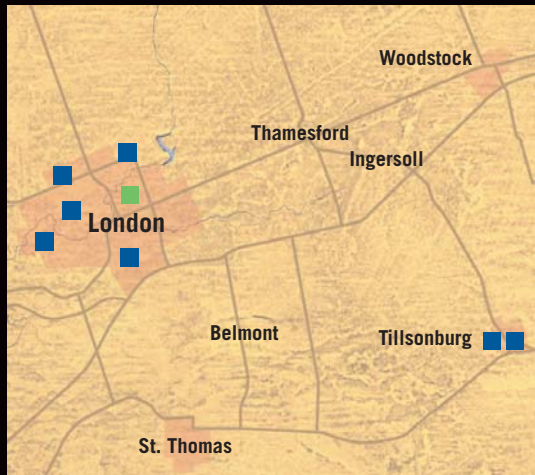




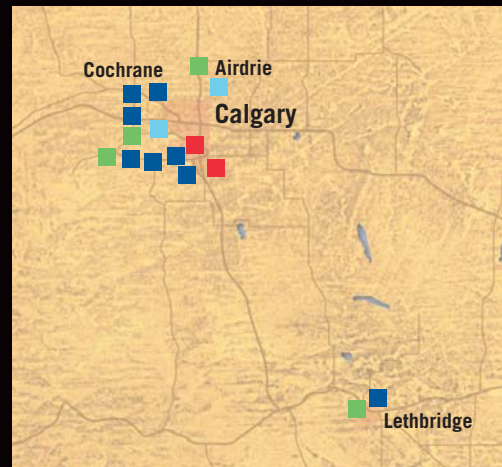
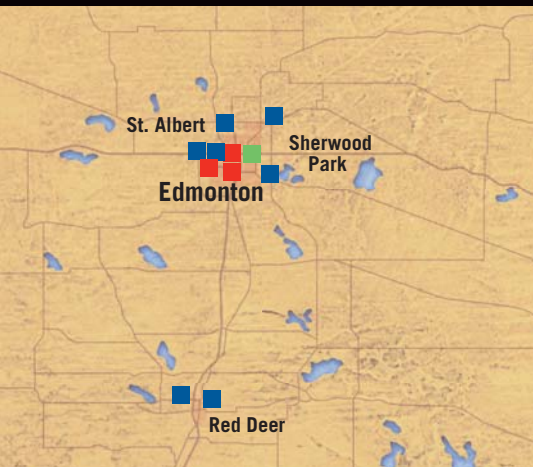
# Shopping For Everyday Life

FIRST CAPITAL REALTY IS CANADA'S LEADING OWNER, DEVELOPER AND OPERATOR OF SUPERMARKET AND DRUGSTORE-ANCHORED NEIGHBOURHOOD AND COMMUNITY SHOPPING CENTRES, LOCATED PREDOMINANTLY IN GROWING METROPOLITAN AREAS. THE COMPANY CURRENTLY OWNS INTERESTS IN 161 PROPERTIES, INCLUDING SIX UNDER DEVELOPMENT, TOTTALLING APPROXIMATELY 19.4 MILLION SQUARE FEET OF GROSS LEASABLE AREA AND 14 LAND SITES IN THE PLANNING STAGE FOR FUTURE RETAIL DEVELOPMENT. IN ADDITION, THE COMPANY OWNS 14 MILLION SHARES (19%) OF EQUITY ONE (NYSE: EQY), ONE OF THE LARGEST SHOPPING CENTRE REITS IN SOUTHERN UNITED STATES. INCLUDING ITS INVESTMENTS IN EQUITY ONE, THE COMPANY HAS INTERESTS IN 326 PROPERTIES TOTTALLING APPROXIMATELY 36.5 MILLION SQUARE FEET OF GROSS LEASABLE AREA. FIRST CAPITAL REALTY HAS AN ENTERPRISE VALUE OF OVER \$4 BILLION.

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



# LOCATION LOCATION LOCATION



## A MESSAGE TO OUR SHAREHOLDERS:

The year 2007 was in reality a “tale of two markets”. While the first half of the year continued the same market conditions we had seen in 2006, in the second half of the year the financial world completely changed, driven by a slowing US economy and the so-called sub-prime credit crisis. Despite this sea-change in the financial markets, for First Capital Realty it was another year of record results. Our total investment in acquisitions, developments and property improvements was approximately \$500 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 focused and disciplined acquisitions, proactive management and selective development activities. These attributes I believe have proven to be more important in the current environment.

While we are generally pleased with our results in 2007, as CEO my primary and most important responsibility is not to look back on the past, but rather to look forward to the future and continue to strengthen the foundation that ensures long term growth in the value of our investment in First Capital Realty. As I write this letter, I can tell you that this job is not getting any easier, but you have my commitment that it’s going to get done.

In order to share with you our plans to meet this objective, as well as some of the human, corporate and real estate assets that make First Capital the great company it is, allow me first to look back in time when I entered the real estate business, as I think it is relevant to how we approach the current market environment.

I was a young and ambitious guy, an entrepreneur by nature, and the early 1990’s seemed like a good time to get into real estate as investment returns were pretty high. But there was one “minor” problem – capital was not readily available (sound familiar?). I remember very well a 1994 \$8 million bond offering that took me almost two months to sell. I was so busy and preoccupied with raising money that it did not occur to me that real estate was priced attractively. I simply tried to put my hand on every dollar I could find, and use this cash to buy and develop shopping centres. That was how we operated in the 1990’s.

By 2003 First Capital was an established business. We owned 82 properties, and as a result capital became more available for us. For the next two years we raced to acquire properties as the window for accretive growth was wide open. We raised money and bought, developed and redeveloped a large number of shopping centres.

Then, in 2006, while the cost of capital remained extremely attractive, it dawned on us that properties were not priced as attractively anymore, and that the spread over our cost of capital on mature and well leased urban properties that fit our criteria was getting very thin. All of a sudden real estate had become a popular business. The money to purchase assets was relatively easy to obtain, and all you had to do was buy. It seemed as though if you had a pulse you could raise money and buy real estate. Inevitably, our acquisition pace slowed down dramatically, and you will recall in my Message to Shareholders a year ago I stated that “unfortunately, this highly favourable environment is now over.”

How quickly things change. The second half of 2007, and as I write this letter continuing into 2008, has seen financial markets playing completely different music than the prior few years, and the tones are not pleasant. The cost of capital, both debt and equity, has increased, and the availability of capital has decreased. It seems from a bird’s eye view that real estate has gone out of favour.

So is the party over? For us I don’t think the party ever started, because we operated our business according to very clear principles, and we are going to continue to do so. These principles come from the years of collective experience possessed by our management team – we have seen the worst of times in the real estate business; we have been there.

When I got into this business my mentor, our Chairman, Chaim Katzman, who has been in the business much longer than I have (he doesn’t like it when I remind him of this) told me two very important things.

## A MESSAGE TO OUR SHAREHOLDERS: – continued

First, being successful in real estate is all about “staying power”. If you own good properties, if you manage them well, and if you are not too leveraged, you will do fine through all economic cycles.

His second piece of advice was along those same lines. He told me that “real estate is a good business. It’s a little slow in the first 30 years, and after that it gets a lot better”. Real estate is a long-term business – you buy or develop a property and proactively manage it, first for its cash flow, and if you are patient and hang in long enough, you will end up with a capital gain.

As an aside, Chaim now claims he told me it takes 50 years before things improve, but I know if he had said that, I would have not entered into business with him and would have done something else. In hindsight, I am happy I stuck around.

So why am I telling you all this?

In the past two decades I have participated in endless numbers of discussions and brainstorming sessions about where the market is going, where real estate prices are going, where interest rates are going and where is the economy heading. Prosperity? Recession? Slow down? “Frankly, my dear, I don’t give a damn” (Gone with the Wind).

So why is it that on a certain level, we don’t care? It’s not that we don’t carefully monitor and assess what is going on in the financial world – it’s just that over the years we have learned that we have absolutely no way of affecting the economic environment. Instead, we concentrate on what we know and what we can affect, and that is the management of our business.

The foundation of our business has been, and continues to be based on a few key principles:

1. Owning good real estate is a matter of LOCATION, LOCATION, LOCATION. It’s what we remind ourselves every morning when we get up, and with every property we look at and every transaction we bid on.
2. Demographics are very important to us. Our properties will always be located in major urban centres that enjoy growth in population and income, on corners with high density, or simply put, in trade areas with high barriers to entry. We have learned that the harder it is to buy or develop a property, the easier it is to own it. On the other hand, the easier it is to buy or develop a property, the harder it is to own it.
3. Be financially astute. We look at every deal and make sure there is a long term, risk adjusted appropriate return on capital invested. We also make sure we clearly understand the risk and opportunity of every transaction. Finally, and probably most importantly, we will not become too leveraged, and we will maintain a conservative financial position – it’s called “staying alive”.
4. Look for sweat equity. We have spent our time and effort finding properties that represent good long term value for our investment. Many were broken, poorly managed or under-capitalized properties where we added real value by applying our capital, time, skill and efforts to reposition them and grow our return over time.

As I look ahead to the future, it is also important for us, the shareholders to know that almost a third of our portfolio is actively undergoing significant value-added activity. Of our total 161 properties, 28 are currently under development or re-development, while another 24 are in pre-development planning stages. We also own 14 land sites for future development. These assets will continue to drive growth in our earnings for years to come. With respect to our stabilized property portfolio, the majority have been upgraded and renovated over the last few years, bringing tenants to their most current format.

At First Capital, we have followed these principles to build what we believe is the best portfolio of shopping centres in the country. But we have one more superior advantage, and that is our people. Over the years, we have come together to be a close group of skilled and dedicated people that consider First Capital their second home (possibly their first home in terms of the hours they spend). Once we locate a good piece of real estate, whether its land, a run-down shopping centre, assembling of a few lots or buildings into one asset, or a successful property that someone else has created, the deal gets valued by all the various parts of our team, including our acquisition, development, leasing, financing and property operation teams. Then, leveraging the diverse skills and talent of our people, we make an investment decision. It's called accountability – the investment decision and the execution of the business plan for our assets are done by the same people.


Real estate is a local business, so we have developed a strong and broad presence in major urban centres in each of central, western and eastern Canada. With this depth of market coverage, we are able to execute every type of deal as long as we end up with a successful shopping centre and an appropriate and growing return on our investment. This flexibility allows us to find opportunities where the money is made on the real estate and not on financial engineering.

All our activities are also done while carefully avoiding taking high risks. This is another one of our strengths, and the beauty of our business. Over the last few months I have started to hear the word “cautious” used by many participants in our industry, and the concept of “risk” being re-evaluated in the financial markets. At First Capital, we have always been cautious, even with the significant growth we have generated over the last eight years. In our mind, FCR's second name could stand for First Cautious Realty. Our game plan works even with higher cost of capital which I believe is where we are right now.

So am I optimistic? Not really. I am not paid to be optimistic, and that's not why you keep me around. But I think it's quite realistic to say that we are going to continue to make money in this business, and maybe we might find out that tougher times present some interesting opportunities for those who are truly committed to this business for the long term.

Its now time for me to get back to work, but before that, to my fellow co-workers who help me deliver a better future for all of us, I would like to 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

March 14, 2008

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

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

### INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for First Capital Realty Inc. ("First Capital Realty" or the "Company") should be read in conjunction with the Company's audited Consolidated Financial Statements and Notes for the years ended December 31, 2007 and 2006. Additional information, including the Company's most recent Annual Information Form, is available on SEDAR's website at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.firstcapitalrealty.ca](http://www.firstcapitalrealty.ca). The information contained in this MD&A is based on information available to Management as of March 6, 2008.

### BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (TSX:FCR) is Canada's leading owner, developer and operator of supermarket and drug store-anchored neighbourhood and community shopping centres located predominantly in growing metropolitan areas. As at December 31, 2007, the Company owned interests in 161 properties, including six under development totalling approximately 19.4 million square feet of gross leasable area and 13 land sites in the planning stage for future retail development. The Company also invests in the United States through its holdings in Equity One, Inc. (NYSE:EQY) ("Equity One"), an owner, renovator, developer, and manager of neighbourhood and community shopping centres anchored by leading supermarkets, drug stores or discount retail stores in major metropolitan markets in the southern and northeastern United States. The Company owns 14.0 million shares, approximately 19% of Equity One. Including its investment in Equity One, the Company has interests in 326 properties totalling approximately 36.5 million square feet of gross leasable area.

First Capital Realty was incorporated in November 1993 and conducts its business directly and through subsidiaries.

First Capital Realty's primary strategy 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 strategic 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 its existing shopping centre portfolio.

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 the Greater Toronto area including the Golden Horseshoe area and London; Calgary; Edmonton; the Greater Vancouver area including Vancouver Island; the Greater Montreal area; the Ottawa and Hull region 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 that are well located within dense urban areas that 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. First Capital Realty also actively develops properties in its target markets across Canada, generating growth in markets where accretive acquisitions are often difficult to find.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

The Company believes that a quality location is the single most important factor in acquiring, developing and operating a retail property over the long term. First Capital Realty assesses the quality of locations based on a number of factors in the trade area of a property including demographic trends, potential for competitive retail space and existing and potential tenants in the market.

Once the Company has acquired a property in a specific retail trade area it will look to acquire adjacent or nearby properties. These additional properties allow the Company to provide maximum flexibility to its tenant base to meet their changing formats and size requirements over the long-term. Adjacent properties also allow the Company to essentially expand or integrate its existing property, providing a better retail offering for consumers.

### Income-Producing Portfolio

The Company's properties are summarized as follows:

December 31	2007			2006		
	Number of Properties <sup>(1)</sup>	Gross Leasable Area (000's sq. ft.)	Percent Occupied	Number of Properties <sup>(1)</sup>	Gross Leasable Area (000's sq. ft.)	Percent Occupied
Ontario	61	8,613	96.8%	61	8,325	96.6%
Quebec	54	5,215	94.7%	53	4,963	95.7%
Alberta	25	3,779	93.1%	23	3,211	94.7%
British Columbia	17	1,593	95.0%	17	1,485	94.0%
Other Provinces	4	182	89.2%	4	182	88.8%
<b>Total</b>	<b>161</b>	<b>19,382</b>	<b>95.3%</b>	<b>158</b>	<b>18,166</b>	<b>95.7%</b>

(1) Includes six properties under development in each of 2007 and 2006.

Eighty-six percent of these shopping centres are anchored by grocery stores and/or drug stores. The average size of the shopping centres is 120,000 square feet with sizes ranging from 20,000 to over 500,000 square feet. The Company operates in key urban markets in the four largest provincial economies in Canada.

Management believes that one measure of the quality of a shopping centre is the ability of the centre to attract and retain quality tenants. The Company's top ten tenants, ranked by percent of total annual minimum rent, and their respective credit ratings, portfolio presence and average remaining lease terms at December 31, 2007 are listed in the chart below:

Tenant	DBRS Credit Rating	Number of Stores	Square Feet	Percent of Total Canadian Gross Leasable Area	Remaining Lease Term in Years
Sobeys	BBB(low)	43	1,521,000	7.8%	12
Loblaws	A(low)	26	1,412,000	7.3%	9
Shoppers Drug Mart	A(low)	50	641,000	3.3%	9
Metro	BBB	27	996,000	5.1%	11
Zellers / Home Outfitters	—	18	1,654,000	8.5%	10
Canadian Tire and Mark's Work Wearhouse	A(low)	21	782,000	4.0%	10
TD Canada Trust	AA	34	174,000	0.9%	6
Canada Safeway	BBB	9	375,000	1.9%	7
Wal-Mart	AA	4	473,000	2.4%	12
Royal Bank	AA	23	137,000	0.7%	5
		<b>255</b>	<b>8,165,000</b>	<b>41.9%</b>	<b>10</b>



At December 31, 2007, the Company's top 40 tenants, including the top ten above, represented 57.9% of the Company's annualized minimum rents and 59.7% of the gross leasable area in the Company's portfolio. More than 74% of those rents in the top 40 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, over 45% 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 its portfolio by virtue of their location, demographics and tenant base or that also have redevelopment opportunities. Through acquisitions, the Company expands its presence in its target urban markets in Canada, and continues to generate greater economies of scale and leasing and operating synergies. The Company also looks to acquire adjacent properties in a retail trade area where it has established a presence. 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 presence. Historically, such portfolio opportunities with properties of the same quality as the Company's are rare.

### **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 6-8% of the Company's total asset value at any given time. Typically new "greenfield" shopping centres are developed after obtaining anchor tenant lease commitments. Redevelopment projects at existing properties are carefully managed to minimize tenant downtime. These properties continue to operate during the planning, zoning and leasing phases of the project. The Company will sometimes carry vacant space for a planned future expansion of tenants or reconfiguration of a property. To facilitate its development activities the Company will acquire greenfield land sites in addition to sites or properties adjacent to existing properties. The Company strategically manages its development activities to reduce development risks.

Since May 2006 all new development projects are being built according to LEED (Leadership in Energy and Environmental Design) certification standards. The LEED rating system is the internationally accepted benchmark for the design, construction, and operation of high performance green buildings.

Achieving LEED certification is the leading way for organizations to demonstrate that their building project is truly green. The certification promotes a whole building approach to sustainability by recognizing performance in five key areas of human and environmental health: sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality.

As of December 31, 2007, the Company has 32 "Green" development projects underway or in the planning stage.

### **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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

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 for the Company's tenants.

### Equity One

The Company owns 14.0 million shares as of December 31, 2007 (2006 – 13.9 million shares) or approximately 19% (2006 – 19%) 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”) in the United States with acquisition, development, redevelopment, capital markets, property management and leasing expertise. Equity One owns or has interests in 165 properties in the U.S. totalling approximately 17.1 million square feet consisting of 152 shopping centres, six non-retail properties and seven development sites.

### 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. 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 the execution of its business strategy.

#### Overall Leverage Level

Another important objective is to continue to maintain financial discipline and 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.

### 2007 Performance Compared to Objectives

Management focussed on the following four areas to achieve its objectives in 2007:

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

Management believes it has met or exceeded its key 2007 objectives.



FUNDS FROM OPERATIONS  
PER DILUTED SHARE



DEBT TO MARKET  
CAPITALIZATION

## SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

<i>As at December 31 (thousands of dollars)</i>	2007	2006	2005
<b>Operation Information</b>			
Number of properties <sup>(1)</sup>	161	158	133
Gross leasable area (square feet)	19,382,000	18,166,000	15,712,000
Development land pipeline, including ongoing development (acreage) <sup>(2)</sup>	394	269	243
Portfolio occupancy	95.3%	95.7%	95.0%
Rate per occupied square foot	\$ 14.56	\$ 13.95	\$ 13.61
Gross leasable area coming on-line (square feet)	521,400	478,900	339,000
Same property net operating income ("NOI") – increase over prior year	3.4%	3.7%	—
Same property NOI – with redevelopment and expansion – increase over prior year	4.9%	6.3%	—
<b>Financial Information</b>			
Gross shopping centre investments <sup>(3)</sup>	\$ 3,061,424	\$ 2,689,005	\$ 2,124,271
Land and shopping centres under development	\$ 284,077	\$ 178,347	\$ 136,475
Real estate investments, net book value	\$ 3,303,029	\$ 2,943,062	\$ 2,380,113
Total assets	\$ 3,409,409	\$ 3,060,879	\$ 2,469,288
Mortgages, loans and credit facilities <sup>(4)</sup>	\$ 1,471,114	\$ 1,388,650	\$ 1,297,040
Senior unsecured debentures payable <sup>(4)</sup>	\$ 595,376	\$ 399,813	\$ 100,000
Convertible debentures payable <sup>(4)</sup>	\$ 217,030	\$ 192,189	\$ 96,990
Shareholders' equity	\$ 951,331	\$ 911,593	\$ 842,544
<b>Capitalization and Leverage</b>			
Shares outstanding	79,681,929	75,297,908	70,645,834
Enterprise value	\$ 4,218,074	\$ 4,080,426	\$ 3,121,900
Debt to market capitalization <sup>(5)</sup>	48.9%	43.7%	44.7%
Debt to aggregate assets <sup>(5)</sup>	56.4%	55.4%	54.2%
<b>Year ended December 31</b>			
<i>(thousands of dollars, except per share amounts)</i>			
	2007	2006	2005
Revenues	\$ 382,924	\$ 332,897	\$ 268,642
Net operating income – Canada <sup>(6)</sup>	\$ 242,445	\$ 205,626	\$ 165,049
Net income	\$ 30,353	\$ 45,959	\$ 29,196
Basic earnings per share	\$ 0.39	\$ 0.62	\$ 0.72
Diluted earnings per share	\$ 0.39	\$ 0.62	\$ 0.50
<b>Equity One</b>			
Equity income (Cdn\$)	\$ 14,375	\$ 32,696	\$ 17,475
Dividends from Equity One (Cdn\$)	\$ 17,617	\$ 33,265	\$ 18,221
Dividends from Equity One (US\$)	\$ 16,756	\$ 29,430	\$ 15,207
Average exchange on dividends (US\$ to Cdn\$)	1.05	1.13	1.20
<b>Dividends</b>			
Total dividends	\$ 98,688	\$ 90,942	\$ 87,617
Per common share			
– regular	\$ 1.26	\$ 1.23	\$ 1.20
– special	\$ —	\$ —	\$ 0.20
Dividends reinvested by shareholders <sup>(7)</sup>	\$ 76,316	\$ 68,323	\$ 45,200

# MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

Years ended December 31

(thousands of dollars, except per share amounts)

	2007	2006	2005
<b>Funds from Operations</b> <sup>(8)</sup>			
Funds from operations	\$ 125,356	\$ 117,186	\$ 94,666
Funds from operations per diluted share	\$ 1.60	\$ 1.58	\$ 1.48
Weighted average diluted shares – FFO	78,427,583	74,321,824	63,995,995
<b>Adjusted Funds from Operations</b> <sup>(8)</sup>			
Adjusted funds from operations	\$ 122,263	\$ 106,739	\$ —
Adjusted funds from operations per diluted share	\$ 1.42	\$ 1.36	\$ —
Weighted average diluted shares – AFFO	86,304,978	78,272,322	—

(1) Includes properties currently under development.

(2) Net of partners' interests.

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

(4) December 31, 2007 figures are presented net of unamortized financing costs. See Changes in Accounting Policies.

(5) Calculated on a trailing basis in accordance with the indentures governing the issuance of senior unsecured debentures, less non-cash compensation.

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

(7) 2007 includes \$19.6 million of dividends payable at December 31, 2007 that were reinvested in January 2008 and 2006 includes \$18.3 million of dividends payable at December 31, 2006 that were reinvested in January 2007.

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

## Summary Consolidated Information and Highlights

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

- Gross shopping centre investments increased by 13.8% since December 31, 2006 while gross leasable area increased by 6.7%.
- Investments in land and shopping centres under development increased by 59.3% since December 31, 2006 to \$284 million, while the development acreage pipeline, including ongoing development, increased by 46.5% to 394 acres.
- Net operating income increased by 17.9% over 2006 to \$242.4 million.
- FFO increased by 7.0% over 2006 to \$125.4 million.
- AFFO increased by 14.6% over 2006 to \$122.3 million.
- The enterprise value of the Company increased to \$4.2 billion at December 31, 2007 from \$4.1 billion at December 31, 2006 based on the closing share price.
- The number of common shares outstanding increased by 5.8% to 79.7 million.

## BUSINESS AND OPERATIONS REVIEW

### Investments in Real Estate

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

<i>(millions of dollars)</i>	2007	2006
Gross real property investments, January 1	\$ 2,867	\$ 2,261
Acquisition of income-producing properties	190	404
Acquisition of additional interests in existing properties	11	10
Acquisition of additional space and land parcels adjacent to existing properties	62	62
Acquisition of land for development	56	23
Development activities and portfolio improvements	171	109
Disposition of shopping centre	(7)	—
Other	(5)	(2)
Gross real property investments, December 31	\$ 3,345	\$ 2,867
Gross shopping centre investments	\$ 3,061	\$ 2,689
Land and shopping centres under development	284	178
Gross real property investments, December 31	\$ 3,345	\$ 2,867

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 2007 and 2006, along with the Company's interest in Equity One, are discussed below.

### Income-Producing Properties

In 2007, the Company acquired interests in six income-producing shopping centres comprising 937,000 square feet for \$190.2 million. Of these properties, five were anchored by supermarkets. In addition, one of the supermarket-anchored centres also included a drug store as an additional anchor and three of the supermarkets contain a pharmacy. 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 (in millions)
Westmount Shopping Centre	Edmonton	AB	Q1	✓	✓	463,000	\$ 71.3
Halton Hills Village	Halton Hills	ON	Q1	✓	✓	104,000	32.6
Centre d'Achats VMR	Montreal	QC	Q1	✓	—	132,000	17.7
Laurelwood Shopping Centre	Waterloo	ON	Q2	✓	✓	92,000	29.6
Staples Gateway	Edmonton	AB	Q2	—	—	40,000	9.4
Longwood Station	Nanaimo	BC	Q4	✓	✓	106,000	29.6
Total				5	4	937,000	\$ 190.2

During the year, the Company also disposed of a 126,000 square foot retail property in Ontario for cash proceeds of \$6.4 million, resulting in a gain of \$0.3 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### Additional Space and Adjacent Land Parcels

In 2007, the Company acquired additional space at ten existing shopping centres and five land parcels at or adjacent to existing properties adding 195,000 square feet of gross leasable area and 4.7 acres of commercial land. Total expenditures on these additional interests and land parcels amounted to \$62.1 million. These acquisitions are set out in the tables below.

Property Name	City	Province	Quarter Acquired	Acreage	Gross Leasable Area (Square Feet)	Acquisition Cost (in millions)
<b>Additional space at existing shopping centres</b>						
Glenbrook Plaza (Richmond Square)	Calgary	AB	Q1	—	55,000	\$ 13.1
560 Fairway (Fairway Plaza)	Kitchener	ON	Q2	—	13,000	3.5
Pemberton II (Pemberton Plaza)	North Vancouver	BC	Q2	—	5,000	3.0
Beacon Hill Plaza (Burlingwood SC)	Burlington	ON	Q3	—	20,000	4.9
180 W. Esplanade (Time Marketplace)	North Vancouver	BC	Q3	—	9,000	4.6
Pemberton III (Pemberton Plaza)	North Vancouver	BC	Q3	—	5,000	2.1
4545-51 Kingston Road (Morningside Crossing)	Toronto	ON	Q3	—	15,000	5.5
558 Queenston Road (Queenston Place)	Hamilton	ON	Q3	—	8,000	1.4
66 Bridgeport Road (Bridgeport Plaza)	Waterloo	ON	Q3	—	11,000	1.9
Westmount Village (Westmount SC)	Edmonton	AB	Q4	—	54,000	12.7
<b>Total</b>					<b>195,000</b>	<b>\$ 52.7</b>

Property Name	City	Province	Quarter Acquired	Acreage	Gross Leasable Area (Square Feet)	Acquisition Cost (in millions)
<b>Land parcels at or adjacent to existing properties</b>						
70 Livingston Avenue (Grimsby Square SC)	Grimsby	ON	Q2	0.15	—	\$ 0.3
Olde Oakville Lumber Yard (Olde Oakville Market Place)	Oakville	ON	Q2	3.50	—	4.5
9 Nicol Street Land (Port Place SC)	Nanaimo	BC	Q3	0.40	—	2.6
72 Livingston Avenue (Grimsby Square SC)	Grimsby	ON	Q4	n/a	—	0.4
120 Lynn Williams (Shops at King Liberty)	Toronto	ON	Q4	0.61	—	1.6
<b>Total</b>				<b>4.66</b>	<b>—</b>	<b>\$ 9.4</b>

### Additional Interest in Existing Property

In 2007, the Company acquired the remaining 50% interest in an income-producing shopping centre located in Whitby, Ontario for \$11.2 million, including closing costs.

### Land Sites for Development

During 2007 the Company invested \$56.2 million in the acquisition of eight land sites, comprising 85.6 acres of commercial land for future development, as set out in the table below.

Property Name	City	Quarter Province	Acquired	Acreage	Acquisition Cost (in millions)
Pergola Land	Guelph	ON	Q1	27.8	\$ 12.2
Creditview & Mayfield <sup>(1)</sup>	Brampton	ON	Q1	10.8	3.4
54-70 Plains Road West	Burlington	ON	Q3	1.3	1.8
415 St. Charles	Longueuil	QC	Q3	0.1	1.7
Rutherford Market Place	Vaughan	ON	Q3	16.0	29.7
Hunt Club Place <sup>(2)</sup>	Ottawa	ON	Q3	12.6	—
Burnhamthorpe & Trafalgar <sup>(1)</sup>	Oakville	ON	Q3	12.5	4.5
Dickson Trail Crossing <sup>(3)</sup>	Airdrie	AB	Q3	4.5	2.9
Total				85.6	\$ 56.2

(1) Acquired prior to zoning process.

(2) 33% interest.

(3) 70% interest.

### Impact of 2007 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 2007 acquisitions are in line with its business strategy and will contribute to the achievement of the Company's objectives over the long term.

### 2007 Development Activities

Development is completed selectively, based on opportunities in the markets where the Company operates. Development activities are comprised of greenfield development of new shopping centres, redevelopment of existing shopping centres and expansion of space in existing shopping centres. All development activities are strategically managed to reduce risks and properties are developed after obtaining anchor lease commitments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

In 2007, the Company developed 521,400 square feet of retail space as detailed below.

Property Name	City	Province	Square Feet	Major Tenants
<b>Development</b>				
Faubourg des Prairies <sup>(1)</sup>	Montreal	QC	53,900	IGA, Familiprix
Clairfields Common	Guelph	ON	51,500	Food Basics
King Liberty	Toronto	ON	40,000	GoodLife Fitness, Starbucks
Shoppes on Dundas <sup>(1)</sup>	Oakville	ON	28,100	TD Canada Trust, Shoppers Drug Mart
Morningside Crossing <sup>(1)</sup>	Toronto	ON	24,600	TD Canada Trust, CIBC
Carrefour Charlemagne <sup>(1)</sup>	Charlemagne	QC	22,500	Rousseau Sport
Cochrane City Centre	Cochrane	AB	24,800	
Other space – various properties			6,800	
			252,200	
<b>Redevelopment and Expansion</b>				
Galeries Normandie	Montreal	QC	79,300	IGA Extra, Pharmaprix, Caisse Populaire
Promenades Levis	Levis	QC	24,700	McDonald's, Metro Expansion
Harbour Front Centre <sup>(1)</sup>	Vancouver	BC	19,000	Petsmart
Credit Valley Town Plaza	Mississauga	ON	17,800	Pharma Plus
Langley Crossing Shopping Centre <sup>(1)</sup>	Langley	BC	17,500	Shoppers Drug Mart
Eagleson Place	Ottawa	ON	16,900	Shoppers Drug Mart
Westmount Shopping Centre	Edmonton	AB	14,100	Scotia Bank, Blockbuster
Maple Grove Village	Oakville	ON	10,900	Pharma Plus
Westney Heights Plaza <sup>(1)</sup>	Ajax	ON	8,800	Shoppers Home Health Care
Carrefour du Versant	Gatineau	QC	8,000	IGA
Olde Oakville Market Place	Oakville	ON	7,800	Royal Bank
Towerlane Mall <sup>(1)</sup>	Airdrie	AB	7,100	Staples
Other space – various properties			37,300	
			269,200	
<b>Total</b>			<b>521,400</b>	

(1) Constructed in accordance with Leadership in Energy and Environmental Design (LEED) certificate guidelines.

The 2007 development of 521,400 square feet compares with 478,900 square feet developed in 2006. The developed space was 93.0% occupied when transferred to income-producing shopping centres at an average rental rate of \$19.52 per square foot. As of December 31, 2007, this developed space was 97.4% occupied. 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, 2007, the Company owned 394 acres of land sites and parcels available for future development, compared with 269 acres in 2006. The pipeline of development acreage has increased as a result of new acquisitions and 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, 2007 are summarized as follows:

	Number of Sites/Properties	Acreage <sup>(1)</sup>	Developable Square Feet <sup>(1)</sup> (in thousands)	Net Book Value (in thousands)
Development properties under construction	6	31.3	363.8	\$ 57,623
Redevelopment projects underway	11	79.2	867.8	56,670
Expansion projects underway	5	8.6	126.6	21,928
Properties held for development	18	167.4	1,681.2	95,755
Land parcels adjacent to / part of existing properties	22	78.5	569.1	41,176
Land parcels adjacent to / part of existing properties available for expansion	13	28.6	275.8	—
Other development related costs	—	—	—	10,925
<b>Total</b>	<b>75</b>	<b>393.6</b>	<b>3,884.3</b>	<b>\$ 284,077</b>

(1) Net of partners' interests.

In 2007, the Company invested a total of \$170.9 million in its active development projects as well as in certain improvements to its existing shopping centre portfolio. 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.

At December 31, 2007, 13 land sites included in properties held for development and land parcels adjacent to/part of existing properties comprising our net interest of 142.5 acres and developable square feet totalling 1,379,000 square feet are in the planning stage of development. In addition, the Company is actively planning future redevelopment and/or expansion at 24 of its shopping centres.

The Company's active development and property improvement initiatives continue to improve the physical building and appearance of its shopping centres. At December 31, 2007 the age of the Company's portfolio was as follows:

5 years or newer	6-10 years	11-15 years	16-20 years	Over 20 years
42%	19%	15%	11%	13%

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### 2006 Acquisitions

In 2006, First Capital Realty expanded its portfolio through various acquisitions as set out below.

### Income-Producing Properties

The Company acquired interests in 25 income-producing shopping centres, comprising 1.8 million square feet, for \$403.5 million. Of these properties, 12 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 and one of the supermarkets contains a pharmacy. The acquisitions are summarized in the following table.

Property Name	City	Province	Quarter Acquired	Supermarket-Anchored	Drug Store-Anchored	Gross	Acquisition Cost (in millions)
						Leasable Area (Square Feet)	
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
<b>Total</b>				<b>12</b>	<b>10</b>	<b>1,783,400</b>	<b>\$ 403.5</b>

### Additional Space and Adjacent Land Parcels

The Company acquired additional space at 11 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 (in millions)
<b>Additional space at existing shopping centres</b>						
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
<b>Total</b>					<b>235,100</b>	<b>\$ 47.8</b>
<b>Land parcels at or adjacent to existing properties</b>						
Charlemagne Land (Carrefour Charlemagne)	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 (Carrefour des Forges)	Drummondville	QC	Q2	0.2	—	0.4
19970 – 80th Avenue (Jericho Centre)	Langley	BC	Q2	4.1	—	2.4
Carrefour St. David	Beauport	QC	Q3	0.4	—	0.8
Charlemagne Land (Carrefour Charlemagne)	Montreal	QC	Q3	1.3	—	0.5
68 Livingston (Grimsby Square SC)	Grimsby	ON	Q4	0.1	—	0.3
Cowpland Drive (Eagleson Place)	Ottawa	ON	Q4	6.6	—	1.0
<b>Total</b>				<b>17.3</b>	<b>—</b>	<b>\$ 14.6</b>

### 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 in 2006, 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 (in millions)
Faubourg des Prairies <sup>(1)</sup>	Montreal	QC	Q3	7.6	\$ 3.0
Laval Place Fredo <sup>(1)</sup>	Laval	QC	Q3	0.8	1.5
Abbotsford Lands	Abbotsford	BC	Q4	3.9	7.1
Kanata Lands <sup>(2)</sup>	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
<b>Total</b>				<b>40.7</b>	<b>\$ 22.6</b>

(1) Acquired prior to zoning process.

(2) 50% interest.

## 2006 Development Activities

In 2006, the Company developed 478,900 square feet of retail space in the following shopping centres.

Property Name	City	Province	Square Feet	Major Tenants
<b>Development</b>				
Carrefour Charlemagne <sup>(1)</sup>	Charlemagne	QC	139,000	Rona
King Liberty Village	Toronto	ON	45,000	First Capital Realty, Kasian Architecture
Carrefour St. David <sup>(1)</sup>	Beauport	QC	42,000	Metro
Clairfields Common	Guelph	ON	34,000	Shoppers Drug Mart, Scotiabank, TD Canada Trust
Strandherd Crossing	Ottawa	ON	13,000	Dollar Blitz, Starbucks
			<b>273,000</b>	
<b>Redevelopment and Expansion</b>				
Promenades Levis	Levis	QC	25,000	Pharmacie Jean Coutu, Bank of Montreal
Bowmanville Mall	Bowmanville	ON	23,000	A&P
McLaughlin Corners	Brampton	ON	11,000	CitiFinancial, Hasty Market
West Lethbridge Town Centre <sup>(1)</sup>	Lethbridge	AB	7,000	Scotiabank
Red Deer Village	Red Deer	AB	6,000	Mark's Work Wearhouse
Chemong Park Plaza	Peterborough	ON	5,000	TD Canada Trust
Parkway Centre	Peterborough	ON	5,000	Montana's
Other space – various projects			21,000	
			<b>103,000</b>	
<b>Subtotal</b>			<b>376,000</b>	
Eagleson Cope Drive	Ottawa	ON	102,900	Loblaws
<b>Total</b>			<b>478,900</b>	

(1) Constructed in accordance with Leadership in Energy and Environmental Design (LEED) certificate guidelines.

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.

At December 31, 2006, the Company had 269 acres of land sites and parcels available for development. The Company's development sites and properties as at December 31, 2006 are summarized as follows:

	Number of Sites/Properties	Acreage <sup>(1)</sup>	Developable Square Feet <sup>(1)</sup> (in thousands)	Net Book Value (in thousands)
Development properties under construction	6	41.8	468.2	\$ 43,832
Redevelopment projects underway	5	13.9	188.5	17,491
Expansion projects underway	3	3.3	33.6	5,758
Properties held for development	11	125.6	1,176.5	49,498
Land parcels adjacent to / part of existing properties	18	52.4	544.1	45,665
Land parcels adjacent to / part of existing properties available for expansion	16	31.5	348.4	—
Other development related costs	—	—	—	16,103
<b>Total</b>	<b>59</b>	<b>268.5</b>	<b>2,759.3</b>	<b>\$ 178,347</b>

(1) Net of partners' interests.

The Company invested a total of \$108.5 million in 2006 in its active development projects and in certain improvements to its existing shopping centre portfolio.

#### **Expenditures on Land and Shopping Centres under Development and Shopping Centres**

<i>(thousands of dollars)</i>	2007	2006
Expenditures on:		
Deferred leasing costs		
Revenue enhancing	\$ 1,605	\$ 2,575
Revenue sustaining	1,927	2,946
Other items and adjustments	(103)	92
	<b>3,429</b>	<b>5,613</b>
Shopping centres		
Revenue enhancing	13,410	9,529
Revenue sustaining	7,365	5,946
Property repositioning	2,306	3,436
Other items and adjustments	637	518
	<b>23,718</b>	<b>19,429</b>
Land and shopping centres under development	<b>143,744</b>	<b>83,449</b>
<b>Total</b>	<b>\$ 170,891</b>	<b>\$ 108,491</b>

Revenue sustaining capital expenditures are those capital expenditures required for maintaining shopping centre infrastructure and revenues from current leases. Typically, these costs average approximately \$0.50 per square foot annually for the Company. In 2007 they totalled \$0.49 per square foot. Revenue enhancing and repositioning are those expenditures which increase the revenue generating ability of the Company's shopping centres. Management considers the potential effects on occupancy, rental rate per square foot and other factors when assessing whether an expenditure is revenue enhancing or sustaining.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### Leasing and Occupancy

In 2007, net new leasing, including new development space coming on line, totalled 605,500 square feet compared to 640,700 square feet in 2006. This net new leasing will generate additional annual minimum rent of approximately \$12.1 million as compared to \$9.0 million in 2006. Lease renewals on 1,081,000 square feet were completed in 2007, as compared to 1,446,000 square feet of space in 2006. The renewals signed in 2007 will generate additional annual minimum rent 13.0% greater than the expiring rent, which compares to 2006 renewals signed at 5.5% greater than expiring rent.

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.

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 \$14.56 at December 31, 2007 as compared with \$13.95 at December 31, 2006.

The occupancy level of the portfolio, including space for redevelopment, was 95.3% of total gross leasable area as at December 31, 2007 as compared with 95.7% at December 31, 2006.

OCCUPANCY	2007	2006	2005
Occupancy	95.3%	95.7%	95.0%
Under Redevelopment	1.9%	1.0%	1.1%
Vacant	2.8%	3.3%	3.9%

### Equity One, Inc. (“Equity One”)

Equity One is a United States REIT traded on the New York Stock Exchange (“NYSE”) under the ticker symbol EQY. Equity One is a real estate investment trust that principally acquires, renovates, develops and manages neighbourhood and community shopping centres anchored by leading supermarkets, drug stores or discount retail store chains 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 165 properties comprising approximately 17.1 million square feet consisting of 152 shopping centres, six non-retail properties, and seven development parcels as at December 31, 2007.

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-nine percent of the total square footage owned by Equity One is located in Florida, with the balance of the properties in ten 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 \$192 million and \$319 million (2006 – \$229 million and \$432 million), respectively, at December 31, 2007, using the year-end exchange rate of \$0.99 (2006 – \$1.17). First Capital Realty, through its wholly-owned U.S. subsidiaries, owned 14.0 million shares of Equity One as of December 31, 2007 (2006 – 13.9 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. Equity One has paid dividends for 39 consecutive quarters, providing the Company with a source of stable cash income. At December 31, 2007, US\$129.5 million of the outstanding debt was secured by the shares held in Equity One.

## RESULTS OF OPERATIONS

### Funds from Operations and Adjusted Funds from Operations

In Management's view, funds from operations ("FFO") and adjusted funds from operations ("AFFO") are commonly accepted and meaningful indicators 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 and AFFO disclosures supplement Canadian generally accepted accounting principles ("GAAP") disclosure. The Company's method of calculating FFO and AFFO may be different from methods used by other corporations or REITs (real estate investment trusts) and accordingly, may not be comparable to such other corporations or REITs. FFO and AFFO are presented to assist investors in analyzing the Company's performance. FFO and AFFO: (i) do not represent cash flow from operating activities as defined by GAAP, (ii) are 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 alternatives 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, modelled on the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT") in the United States. FFO as defined by RealPac differs in two respects from the definition adopted by NAREIT. Under the RealPac definition, future income taxes are excluded from FFO, whereas under the NAREIT definition, they are included. In addition, impairment losses are excluded from the RealPac FFO definition, whereas the NAREIT definition includes them. As a result, when calculating FFO, the Company adjusts the FFO reported by Equity One to comply with the RealPac definition, when appropriate.

The Company's GAAP net income is reconciled to funds from operations below:

<i>(thousands of dollars)</i>	2007	2006
Net income for the year	\$ 30,353	\$ 45,959
Add (deduct):		
Amortization of shopping centres, deferred costs and intangible assets	77,964	64,252
Gain on disposition of income-producing shopping centre	(323)	—
Current income tax on Equity One special dividend from gain on real estate	—	3,621
Equity income from Equity One	(14,375)	(32,696)
Funds from operations from Equity One	20,807	22,457
Future income taxes	10,930	13,593
Funds from operations	\$ 125,356	\$ 117,186

The components of FFO are:

<i>(thousands of dollars, except per share amounts)</i>	2007	2006
Net operating income	\$ 242,445	\$ 205,626
Interest expense <sup>(1)</sup>	(116,043)	(96,066)
Interest and other income, less debt settlement costs	5,227	6,917
Corporate expenses	(23,544)	(19,282)
Funds from operations from Equity One	20,807	22,457
Amortization	(1,864)	(1,932)
Current taxes	(1,672)	(534)
Funds from operations	\$ 125,356	\$ 117,186
Funds from operations per diluted share	\$ 1.60	\$ 1.58
Weighted average diluted shares – FFO	78,427,583	74,321,824

(1) In 2006, amortization of deferred financing and deferred issue costs totalling \$2.3 million was reclassified to interest expense from amortization for comparative purposes in accordance with the 2007 presentation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### Funds from Operations

Funds from operations for the year ended December 31, 2007 totalled \$125.4 million, or \$1.60 per diluted common share, compared to \$117.2 million, or \$1.58 per diluted common share in 2006. The increase in FFO was primarily due to increased net operating income resulting from same property NOI growth as well as acquisitions and development projects coming on line, partially offset by an increase in interest expense of \$22.2 million, a decline in FFO from Equity One of \$1.7 million, an increase in corporate expenses associated with transaction costs of \$2.3 million related to unsuccessful and unfeasible acquisitions and an increase in non-cash compensation of \$1.8 million.

FFO for the year ended December 31, 2007 included non-recurring items amounting to approximately \$1.9 million or \$0.02 per diluted common share compared to approximately \$2.6 million or \$0.03 per diluted common share in 2006.

### Adjusted Funds from Operations ("AFFO")

Management views AFFO as an effective measure of cash generated from operations. AFFO is calculated by adjusting FFO for amortization of non-cash financing costs, accretion of debt discounts, straight-line and market rent adjustments, non-cash compensation expenses, interest payable in shares, non-cash gains or losses on debt and hedges and actual costs incurred for capital expenditures and leasing costs for maintaining shopping centre infrastructure and revenues from current leases. The Company's proportionate share of Equity One FFO is reversed and only the regular cash dividends received are included in AFFO.

<i>(thousands of dollars, except per share amounts)</i>	<b>2007</b>	2006
FFO	<b>\$ 125,356</b>	\$ 117,186
Add / (Deduct):		
Amortization of deferred financing fees	<b>2,058</b>	2,329
Amortization of deferred debenture issue costs	<b>1,235</b>	850
Rental revenue recorded on a straight line basis and market rent adjustments	<b>(8,875)</b>	(7,482)
Non-cash compensation expense	<b>4,295</b>	2,543
Accretion and amortization of discount on debt	<b>696</b>	242
Interest paid in excess of implicit interest on assumed mortgages	<b>(1,890)</b>	(2,323)
Interest expense payable in shares	<b>12,030</b>	5,981
Non-cash loss on extinguishment of debt	<b>483</b>	—
Revenue sustaining capital expenditures and leasing costs	<b>(9,292)</b>	(8,892)
Funds from operations from Equity One	<b>(20,807)</b>	(22,457)
Dividends from Equity One (Regular)	<b>17,617</b>	18,373
Non-cash (gain) loss on interest rate swaps not designated as hedges	<b>(643)</b>	389
Adjusted Funds from Operations <sup>(1)</sup>	<b>\$ 122,263</b>	\$ 106,739
Adjusted Funds from Operations per diluted share	<b>\$ 1.42</b>	\$ 1.36
Weighted average diluted shares for AFFO <sup>(2)</sup>	<b>86,304,978</b>	78,272,322

(1) Excludes the 2006 Equity One Special Dividend of \$1.00 per share or \$14.9 million and the related tax effect of \$3.6 million.

(2) Includes the weighted average outstanding shares that would result from the conversion of the convertible debentures.



In July 2007, the Canadian Institute of Chartered Accountants published guidelines entitled “Standardized Distributable Cash in Income Trusts and Other Flow Through Entities”. The Canadian Securities Administrators issued National Policy 41-201 “Income Trusts and Other Indirect Offerings”. Both documents address disclosures regarding the concept of Distributable Cash and Distributable Income. The Company’s dividend policy is not based on these methodologies and hence, the Company does not use the definitions in these guidelines.

However, AFFO is similar in concept to Distributable Cash and therefore, the Company has set out a reconciliation from cash provided by operating activities (a GAAP measure) to AFFO below, in accordance with the guidelines.

<i>(thousands of dollars)</i>	<b>2007</b>	2006
Cash provided by operating activities	<b>\$ 133,056</b>	\$ 115,173
Gains on sale of land	—	137
Realized gains on sale of marketable securities	<b>2,504</b>	4,221
Deferred leasing costs	<b>3,429</b>	5,613
Net change in non-cash operating items	<b>(8,191)</b>	(831)
Settlement of restricted share units	<b>1,826</b>	1,914
Amortization of other assets	<b>(1,051)</b>	(1,011)
Convertible debenture interest paid in common shares	<b>(12,048)</b>	(4,295)
Convertible debenture interest payable in common shares	<b>12,030</b>	5,981
Revenue sustaining capital expenditures and leasing costs	<b>(9,292)</b>	(8,892)
Dividends from Equity One, Inc. (Special)	—	(14,892)
Current income tax on Equity One, Inc. special dividend from gain on real estate	—	3,621
Adjusted Funds from Operations	<b>\$ 122,263</b>	\$ 106,739

### **Net Operating Income**

*Net operating income (“NOI”) 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 should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

Net operating income increased in 2007 by \$36.8 million to \$242.4 million. The drivers of the increase in NOI are as follows:

<i>(thousands of dollars)</i>	2007	2006
Same property NOI	<b>\$ 169,421</b>	\$ 163,920
Development NOI		
Expansion and redevelopment space NOI	<b>9,436</b>	6,573
Same Property NOI with Expansion and Redevelopment	<b>178,857</b>	170,493
Development (Greenfield)	<b>19,327</b>	14,316
2006 Acquisitions	<b>27,735</b>	12,867
2007 Acquisitions	<b>7,848</b>	—
Rental revenue recognized on a straight-line basis	<b>6,753</b>	5,839
Market rent adjustments	<b>2,122</b>	1,643
Dispositions and other	<b>(197)</b>	468
NOI	<b>\$ 242,445</b>	\$ 205,626
NOI		
Property rental revenue	<b>\$ 376,891</b>	\$ 325,980
Property operating costs	<b>134,446</b>	120,354
NOI	<b>\$ 242,445</b>	\$ 205,626
NOI Margin	<b>64.3%</b>	63.1%

Same property NOI (includes properties where the Company's ownership and investment are substantially the same in the two calendar years) improved by 3.4%, or \$5.5 million, during the year, due to increases in lease rates and occupancy. NOI on space under redevelopment or expansion increased from \$6.6 million to \$9.4 million. These activities comprise the redevelopment and expansion activities on the Company's properties that were owned in the two calendar year period. On a combined basis this same property portfolio increased its NOI by 4.9% to \$178.9 million.

In the normal course of operations, the Company receives payments from tenants as compensation for the termination of leases. In 2007, the Company received lease termination payments of \$0.7 million or 0.2% of total property revenues as compared to \$1.0 million, or 0.3% of total property revenues, in 2006. Lease termination income has ranged from 0.2% to 0.8% 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 2007 of 64.3% reflects the inclusion of straight-line rents and market rent adjustments of \$8.9 million. Excluding these items, the NOI margin is approximately 63.5%. Similarly, the 2006 ratio of net operating income to gross property revenues of 63.1% reflects the inclusion of straight-line rent and market rent adjustment amounts of \$7.5 million in NOI. Excluding these items, the NOI margin was approximately 62.2% in 2006. Overall, the annualized NOI margin has increased over the past three years as the Company's portfolio has grown and expanded in new markets.

### Equity Income from Equity One

The Company received dividends from Equity One of US\$16.8 million or US\$1.20 per share during the year ended December 31, 2007 compared to US\$29.4 million or US\$2.20 per share in the year ended December 31, 2006. The Canadian dollar equivalent amounts are \$17.6 million and \$33.3 million, respectively.

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, 2007, equity income from Equity One decreased to \$14.4 million from \$32.7 million in the prior year. In 2006, the equity income included the Company's share in the gain (approximately \$19.4 million, net of taxes) on the sale of Equity One's Texas portfolio and other properties, offset by management transition and abandoned transaction costs incurred by Equity One. In 2006 Equity One sold 29 Texas properties to a third-party investor in two transactions which occurred in the second and fourth quarters of 2006. Equity One realized net proceeds of approximately US\$329 million from the transaction. 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>	2007	2006
Realized gains on sale of marketable securities	\$ 2,504	\$ 4,221
Interest, dividend and distribution income from marketable securities and cash investments	1,768	1,335
Gains on land and property sales	323	137
Realized gains on interest rate swaps not designated as hedges	161	—
Unrealized gains (losses) on interest rate swaps not designated as hedges	643	(389)
Interest income from development loans	658	683
Income from non-recourse cash flow participation loans	—	538
Other (expense) income	(24)	392
<b>Total interest and other income</b>	<b>\$ 6,033</b>	<b>\$ 6,917</b>

### Interest Expense

<i>(thousands of dollars)</i>	2007	2006
Mortgages, loans and credit facilities		
Unsecured	\$ 4,040	\$ —
Secured by Canadian properties	56,380	64,944
Secured by investment in Equity One and other investment	10,387	9,734
	<b>70,807</b>	74,678
Senior unsecured debentures and convertible debentures	42,756	19,131
Amortization of deferred financing and deferred issue costs	2,480	—
<b>Total interest expense</b>	<b>\$ 116,043</b>	<b>\$ 93,809</b>

Effective January 1, 2007, amortization of financing costs for mortgages, term loans and debentures is included in interest expense. In 2006 it is included in amortization expense.

The increase in interest expense on mortgages, loans and credit facilities in 2007 was a result of an increase in the gross debt required to fund the growth of the property portfolio. During 2006 and 2007, 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 55.4% at December 31, 2006 to 56.4% at December 31, 2007.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### **Interest Expense on Mortgages and Credit Facilities – Canada**

<i>(thousands of dollars)</i>	2007	2006
Interest expense	\$ 61,342	\$ 64,944
Interest capitalized	15,601	8,776
Interest paid in excess of implicit interest on assumed mortgages	1,890	2,323
Less amortization of financing fees	(1,061)	—
Change in accrued interest	73	(429)
<b>Total Canadian mortgage and credit facilities interest paid</b>	<b>\$ 77,845</b>	<b>\$ 75,614</b>

The increase of \$2.2 million in interest paid on Canadian mortgages and credit facilities in 2007 over 2006 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 6.4% at December 31, 2006 to 6.3% at December 31, 2007, as rates on new financings were lower than those on existing debt. The interest capitalized to properties under development in 2007 increased over 2006 as a result of increased development activity during the year.

### **Interest Expense on U.S. Loans and Credit Facilities**

<i>(thousands of dollars)</i>	2007	2006
Ending debt balance – December 31 (US\$)	\$ 148,480	\$ 139,625
Interest expense (US\$)	\$ 9,985	\$ 8,587
Less amortization of financing fees	(169)	—
Interest expense excluding amortization of financing fees (US\$)	\$ 9,816	\$ 8,587
Average exchange rate	1.07	1.13
Interest expense (Cdn\$)	\$ 10,710	\$ 9,734
Less amortization of financing fees	(184)	—
Interest expense excluding amortization of financing fees (Cdn \$)	10,526	9,734
Change in accrued interest	407	(623)
<b>Total US\$ loans and credit facilities interest paid (Cdn \$)</b>	<b>\$ 10,933</b>	<b>\$ 9,111</b>

Measured in U.S. currency, the interest expense on the U.S. loans and credit facilities excluding amortization of financing fees increased by 14.3% in 2007 from 2006 as a result of the higher average debt balance and a higher average interest rate. The change in the U.S. exchange rate during 2007 partially offset this increase, resulting in an 8.1% increase in interest expense excluding amortization of financing fees 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>	2007	2006
Interest expense on senior unsecured debentures	\$ 30,831	\$ 12,935
Implicit interest rate in excess of coupon rate	(41)	(27)
Less amortization of deferred issue costs	(760)	—
Change in accrued interest	(2,989)	(3,340)
<b>Cash interest paid</b>	<b>\$ 27,041</b>	<b>\$ 9,568</b>

The increase in interest expense from Senior Unsecured Debentures is due to the following debt issuances:

Series	Date of Issue	Par Value	Coupon Rate
B	March 30, 2006	\$100 million	5.25%
C	August 1, 2006	\$100 million	5.49%
D	September 18, 2006	\$100 million	5.34%
E	January 31, 2007	\$100 million	5.36%
F	April 5, 2007	\$100 million	5.32%

### **Interest on Convertible Debentures**

<i>(thousands of dollars)</i>	2007	2006
Interest expense on convertible debentures	\$ 13,160	\$ 6,196
Implicit interest rate in excess of coupon rate	(655)	(215)
Less amortization of deferred issue costs	(475)	—
Change in accrued interest	18	(1,686)
Less interest paid in common shares of the Company	(12,048)	(4,295)
Cash interest paid	\$ —	\$ —

The increase in convertible debenture interest expense is due to the interest on the \$100 million and \$50 million of par value 5.50% convertible unsecured subordinated debentures issued on November 30, 2006 and June 29, 2007, respectively.

### **Corporate Expenses**

<i>(thousands of dollars)</i>	2007	2006
Salaries, wages and benefits	\$ 15,996	\$ 13,833
Non-cash compensation	4,295	2,543
Other general and administrative costs	7,119	6,252
Capital taxes, net of recoveries from tenants	1,824	1,959
Abandoned transaction costs	3,365	1,092
Amounts capitalized to properties under development and deferred leasing costs	(9,055)	(6,397)
	\$ 23,544	\$ 19,282

Salaries, wages and benefits along with staffing levels have increased in response to portfolio growth and the general employment environment in the real estate industry and the markets where the Company operates.

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, employees and select service providers to the Company. Due to the grants of options and share units during 2006 and 2007, 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

Other general and administrative costs have increased with the Company's growth and in response to the increasing costs of compliance in the regulatory environment for public companies.

Corporate expenses include \$1.2 million of costs incurred in the second quarter of 2007 in respect of the Company's unsuccessful takeover bid to acquire the outstanding shares of Sterling Centrecorp Inc. The Company also incurred \$2.2 million of property acquisition costs for acquisitions that were not determined to be feasible during the year ended December 31, 2007, which compares to \$1.1 million in the same period in 2006.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development and initial leasing of the properties, including salaries and related costs, are capitalized in accordance with GAAP to land and shopping centres under development, as incurred. Certain costs associated with the Company's internal leasing staff are capitalized to deferred leasing costs and amortized over the lives of the related leases. Amounts capitalized to real estate investments for properties undergoing development or redevelopment and leasing costs (including leasing for development projects) during the year ended December 31, 2007 totalled \$9.1 million compared to \$6.4 million in the prior year comparative period. Amounts capitalized are based on specific leasing activities and development projects underway. The increase in capitalized costs in 2007 is due to the growth of the portfolio and the increase in properties under development.

### Amortization Expense

<i>(thousands of dollars)</i>	2007	2006
Shopping centres	\$ 55,118	\$ 46,441
Deferred costs	14,629	12,118
Intangible assets	8,217	5,693
Amortization of real estate assets	77,964	64,252
Deferred financing fees	813	3,178
Other assets	1,051	1,011
Total amortization	\$ 79,828	\$ 68,441

Amortization of real estate assets increased due to the amortization of newly acquired properties and development coming on line. This is offset by amortization of deferred financing and deferred issue costs of \$2.5 million for the year ended December 31, 2007 that were reclassified to interest expense in accordance with the changes in accounting standards.

### Income Taxes

<i>(thousands of dollars)</i>	2007	2006
Provision for income taxes on income at the combined Canadian federal and provincial income tax rate of 34.4% (2006 – 33.4%)	\$ 14,784	\$ 21,304
Increase (decrease) in the provision for income taxes due to the following items:		
U.S. operations	(40)	(3,240)
Non-deductible interest expense	240	81
Change in future income tax rate	(5,250)	(573)
Expenses not deductible for tax purposes	1,697	990
Other items	1,171	(814)
Income taxes	\$ 12,602	\$ 17,748

The total income tax expense has decreased compared to 2006 primarily due to decreases in future income tax rates resulting from federal rate reductions enacted in December 2007 as well as a decrease in net income before taxes.

## Net Income

<i>(thousands of dollars, except per share amounts)</i>	2007		2006	
Net income	\$	30,353	\$	45,959
Net income per diluted share	\$	0.39	\$	0.62

The decrease in net income per share was primarily due to a decrease in equity income from Equity One, Inc. In 2006, Equity One recorded a gain on disposition of their Texas portfolio (the Company's share being approximately \$19.4 million, net of taxes), partially offset by a \$2.7 million decrease in future income tax expense. Increases in net operating income were largely offset by increases in interest, corporate expenses and amortization of real estate assets in 2007.

## 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 2007, the Dominion Bond Rating Service Ltd. ("DBRS") provided First Capital Realty with a credit rating upgrade to BBB with a stable trend from the previous rating of BBB(low) with a stable trend relating to the senior unsecured debentures. In 2006, Moody's Investor Services, Inc. ("Moody's") provided First Capital Realty with a credit rating of Baa3 with a stable outlook relating to the senior unsecured debentures. A credit rating in the BBB category is generally an indication of adequate credit quality as defined by DBRS. As defined by Moody's, 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. A rating outlook, expressed as positive, stable, negative or developing, provides the respective 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 Moodys or DBRS at any time.

## Capital Employed

<i>(thousands of dollars)</i>	2007		2006	
Mortgages – Canada	\$	1,145,828	\$	1,190,788
Loans and credit facilities – Canada		178,475		35,143
Loans and credit facilities – U.S.		146,811		162,719
Mortgages and credit facilities		1,471,114		1,388,650
Senior unsecured debentures payable		595,376		399,813
Convertible debentures payable		217,030		192,189
Equity component of convertible debentures		15,905		9,030
Other		65		(1,219)
Convertible debentures principal		233,000		200,000
Share capital		1,238,286		1,128,926
Warrants		140		236
Options and share units		7,834		4,625
Accumulated other comprehensive income		(25,965)		—
Cumulative currency translation		—		(14,170)
Contributed surplus		19,513		19,513
Deficit		(304,382)		(236,567)
Total capital employed	\$	3,234,916	\$	2,891,026

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### Mortgages, Loans and Credit Facilities

As at December 31, 2007, mortgages, loans 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, loans and credit facilities was 6.3% at December 31, 2007 compared to 6.4% at December 31, 2006.

	2007			2006
(thousands of dollars) <sup>(1)</sup>	Canada	U.S.	Total	Total
Fixed rate mortgages	\$ 1,145,828	\$ —	\$ 1,145,828	\$ 1,190,438
Secured term loans				
Floating rate hedged (with interest rate swaps)	—	39,536	39,536	52,443
Floating rate	—	88,440	88,440	110,276
Secured revolving credit facilities				
Floating rate	—	—	—	35,493
Unsecured revolving credit facilities				
Floating rate	178,475	18,835	197,310	—
	\$ 1,324,303	\$ 146,811	\$ 1,471,114	\$ 1,388,650

(1) Amounts are presented net of financing costs and premiums and discounts.

At December 31, 2007, 77.9% (2006 – 85.7%) of the outstanding mortgage, loan and credit facility liabilities bore interest at fixed interest rates. This is due to the replacement of maturing mortgages with floating rate revolving credit facilities. 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, 2007, in the aggregate amount of \$1.146 billion as compared to \$1.190 billion at the end of 2006. The decrease in the outstanding balance is the net result of \$100 million in new financings primarily from financing assumed on acquisitions, top-up financing on existing properties with mortgages and one new mortgage offset by \$144 million in repayments. The average remaining term of the mortgages outstanding has declined from 5.9 years at December 31, 2006 to 5.6 years at December 31, 2007. This decrease is due primarily to the passage of time.

The Company's unsecured revolving facility for \$250 million was completed in March 2007 with a syndicate of six financial institutions. In October 2007 the Company completed an expansion of this facility to \$350 million with a seventh bank joining the syndicate. The facility has a term to March 2010.

The Company has the flexibility under its unsecured credit facility to draw funds based on bank prime rates, bankers' acceptances, LIBOR based advances or U.S. prime for U.S. dollar-denominated borrowings or Euro dollars. The bankers' acceptances plus 110 basis points generally provide the Company with the least costly means of borrowing under this credit facility. The credit facility is being used primarily to finance acquisition, development and redevelopment activities and for general corporate purposes.

The U.S. dollar-denominated term loans and revolving credit facilities totalling Cdn\$147.2 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 term loans and revolving credit facilities are funded by the cash flow generated by the dividends from Equity One. The outstanding U.S. loans and credit facilities increased from US\$139.6 million at December 31, 2006 to US\$148.5 million at December 31, 2007.

The Company also completed a US\$25 million revolving term credit facility with a U.S. financial institution. At December 31, 2007 the facility was undrawn. Draws under the facility bear interest at LIBOR plus 145 basis points. The revolving term facility matures June 2008.



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, 2007, the Company had mortgages, loans and credit facilities aggregating \$111.9 million coming due in 2008. Maturing amounts are comprised of \$65.8 million of mortgages at an average interest rate of 5.97%, \$30.4 million of scheduled amortization of principal balances and \$15.7 million of U.S. term loans and revolving 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.

### Senior Unsecured Debentures

The Company completed the issuance of \$200 million of senior unsecured debentures, as described under "Interest Expense" in the year ended December 31, 2007.

The senior unsecured debentures are rated BBB with a stable trend by Dominion Bond Rating Services ("DBRS") and Baa(3) with a stable outlook by Moody's Investor Services. In the third quarter of 2007, DBRS upgraded the senior unsecured debentures from the previous rating of BBB (low) with a stable trend.

The six series of senior unsecured debentures require the Company to maintain certain covenants as defined in their respective Trust Indentures.

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	Cdn Credit Facilities	Senior Unsecured Debentures	U.S. Loans and Credit Facilities	Total	% Due
2008	\$ 96,172	\$ —	\$ —	\$ 15,717	\$ 111,889	5.4%
2009	80,593	—	—	6,691	87,284	4.2%
2010	116,187	178,475	—	113,256	407,918	19.7%
2011	89,686	—	200,000	11,524	301,210	14.5%
2012	133,394	—	100,000	—	233,394	11.3%
2013	167,925	—	100,000	—	267,925	12.9%
2014	215,977	—	200,000	—	415,977	20.2%
2015	127,713	—	—	—	127,713	6.2%
2016	41,769	—	—	—	41,769	2.0%
2017	6,130	—	—	—	6,130	0.3%
Thereafter	69,249	—	—	—	69,249	3.3%
Add: unamortized deferred financing costs and premium and discounts, net	1,033	—	—	(377)	656	—
	\$1,145,828	\$ 178,475	\$ 600,000	\$ 146,811	\$2,071,114	100.0%

# MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

## Convertible Debentures

<i>(thousands of dollars)</i>		2007			2006		
Coupon	Interest Rate Effective	Principal	Liability	Equity	Principal	Liability	Equity
5.50%	6.45%	\$ 83,000	\$ 77,369	\$ 2,503	\$ 100,000	\$ 97,176	\$ 3,015
5.50%	6.39%	100,000	93,593	6,015	100,000	95,013	6,015
5.50%	6.61%	50,000	46,068	7,387	—	—	—
		<b>\$ 233,000</b>	<b>\$ 217,030</b>	<b>\$ 15,905</b>	<b>\$ 200,000</b>	<b>\$ 192,189</b>	<b>\$ 9,030</b>

On June 29, 2007, the Company issued via private placement, an additional \$50 million principal amount of 5.50% convertible unsecured subordinated debentures maturing on September 30, 2017 at a price of \$107 per \$100 principal amount for total proceeds of \$53.5 million. Gazit Canada Inc., the Company's largest shareholder, acquired \$49 million of the principal amount of these debentures on the same terms as the other investors.

These debentures are in addition to and part of the total \$200 million of convertible debentures issued on December 19, 2005 and November 30, 2006. 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.

In 2007, 467,057 (2006 – 178,373) common shares were issued to pay interest to holders of convertible debentures.

### Shareholders' Equity

Shareholders' equity amounted to \$951 million as at December 31, 2007, as compared to \$912 million at the end of 2006. Shareholders' equity as at December 31, 2007 included \$15.9 million (2006 – \$9.0 million) representing the equity component of convertible debentures as discussed above.

As at December 31, 2007, the Company had 79,681,929 (2006 – 75,297,908) issued and outstanding common shares with a stated capital of \$1.2 billion (2006 – \$1.1 billion). During fiscal 2007, a total of 4,384,021 common shares were issued as follows: 467,057 shares for interest payments on convertible debentures; 320,078 shares from the exercise of common share options and warrants; 73,383 shares from a private placement; 629,628 on conversion of convertible debentures; and 2,893,875 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, 2007 included other comprehensive losses of \$26.0 million, which primarily consisted of an unrealized currency translation adjustment in the amount of \$24.1 million (2006 – \$14.2 million). This amount represents the difference between the U.S. dollar exchange rate in effect at the date of the acquisition of the Company's U.S. net assets, and the U.S. dollar exchange rate as at December 31, 2007 and 2006, respectively. The U.S. dollar exchange rate in effect at December 31, 2007 decreased to US\$1.00 = Cdn\$0.99 from the exchange rate at December 31, 2006 of US\$1.00 = Cdn\$1.17. The impact of the decrease in the foreign exchange rate on the net assets held in the United States resulted in a \$9.9 million change in the unrealized currency translation adjustment.

Shareholders' equity as at December 31, 2007 included a deficit of \$304.4 million (2006 – \$236.6 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, 2007, the Company issued and had outstanding 2,627,089 share purchase options, with an average exercise price of \$24.27. The options are exercisable by the holder at any time after vesting up to ten years from the date of grant. 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, 2007 were exercised, 2,627,089 shares would be issued and the Company would receive proceeds of approximately \$64 million.

### **Liquidity**

The Company's primary sources of capital are cash generated from Canadian property operations, dividends from Equity One, loans, 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 flow from operations is dependent on occupancy levels of properties, rental achieved, collections of rent and costs to maintain or lease space. The Company's strategy is to maintain debt in the range of 45% to 60% to market capitalization. At December 31, 2007 this debt ratio was 48.9% based on the Company's calculation. Maturing debt is generally repaid from proceeds refinancing such debt, issuing new unsecured debentures, financing unencumbered properties or issuing convertible debentures.

Cash and cash equivalents were \$10.5 million at December 31, 2007 (2006 – \$6.8 million). At December 31, 2007 the Company had undrawn credit facilities totalling \$128.0 million and had approved credit facilities totalling \$375.0 million, of which \$325.0 million were available based on security provided to the banks. The Company also had unencumbered assets with a gross book value of approximately \$1.4 billion. 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, term loans and revolving 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, capital market conditions and Management's general view of the required leverage in the business.

# MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

## Cash Flows

<i>(thousands of dollars)</i>	2007	2006
Cash provided by operating activities	\$ 133,056	\$ 115,173
Cash used in investing activities	(445,419)	(507,566)
Cash provided by financing activities	316,979	393,511
Effect of currency rate movement	(975)	357
Increase in cash and cash equivalents	\$ 3,641	\$ 1,475

### Operating Activities

The increase in cash provided by operating activities reflects 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 2007 is lower than the prior year. Details of the Company's investments in acquisitions and developments are provided under "Business and Operations Review".

### Financing Activities

The overall level of financing activity in 2007 is also lower than the prior year as a result of the lower level of acquisition activity in 2007.

## Contractual Obligations

<i>(thousands of dollars)</i>	Payments due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Mortgages					
Scheduled amortization	\$ 204,624	\$ 30,358	\$ 57,281	\$ 51,403	\$ 65,582
Payments on maturity	940,171	65,814	139,499	171,677	563,181
Total mortgage obligations	1,144,795	96,172	196,780	223,080	628,763
Canadian revolving credit facilities	178,475	—	178,475	—	—
U.S. term loans	128,353	15,717	101,112	11,524	—
U.S. revolving credit facilities	18,835	—	18,835	—	—
Letters of credit	11,914	11,914	—	—	—
Senior unsecured debentures	600,000	—	—	300,000	300,000
Land leases	18,683	769	1,540	1,540	14,834
Development and redevelopment	158,256	158,256	—	—	—
Total contractual obligations	\$ 2,259,311	\$ 282,828	\$ 496,742	\$ 536,144	\$ 943,597

The Company has pledged letters of credit totalling \$11.9 million primarily related to its development activities.

The Company's estimated costs to complete properties currently under development are \$158.3 million. These obligations primarily consist of construction contracts and are expected to be funded from credit facilities as the work is completed.

The Company is liable for minimum land-lease payments of \$0.8 million on certain of its properties in each year from 2008 to 2012 and \$14.7 million thereafter. Total minimum land-lease payments are \$18.7 million. The leases expire between 2023 and 2052.

### **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, 2007, 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 \$46.7 million (2006 – \$48.2 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 2007, the Company paid regular dividends of \$1.26 per common share (2006 – \$1.23 per common share). The regular dividend payout ratio calculated as a percent of Funds from Operations per share was approximately 79% in 2007 compared to approximately 78% in 2006. The Company is currently paying a quarterly dividend of \$0.32 per common share. Dividends declared totalled \$98.2 million for the four quarters of 2007, of which \$76.3 million were reinvested by shareholders pursuant to the DRIP, in common shares.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The Company's major shareholder reports certain financial information under IFRS. The most significant difference between IFRS and Canadian generally accepted accounting principles (“Canadian GAAP”) for this purpose is that income-producing shopping centres (“Shopping Centres”) are presented at fair value under IFRS as opposed to cost less accumulated amortization under Canadian GAAP. In addition, the values of deferred costs, straight-line rents receivable and intangible assets and liabilities related to Shopping Centres are not presented separately under IFRS as their values are incorporated within the values of the Shopping Centres. Land and shopping centres under development (“Development Properties”) are presented at cost under both IFRS and Canadian GAAP. In addition, First Capital Realty's future income tax liability increases as a result of the change in value of the Shopping Centres under IFRS. This information is set out in the table below:

<i>(millions of dollars)</i>	<b>2007</b>	2006
IFRS value of Shopping Centres and Development Properties	<b>\$ 4,012</b>	\$ 3,413
Canadian GAAP value of Shopping Centres and Development Properties <sup>(1)</sup>	<b>3,121</b>	2,705
Difference between IFRS value and Canadian GAAP value	<b>891</b>	708
Increase in future income taxes as a result of the difference in value	<b>(159)</b>	(123)
Difference in value, net of taxes	<b>\$ 732</b>	\$ 585

*(1) Includes the net book value of Shopping Centres, Development Properties, deferred costs, straight-line rents receivable and intangible assets and liabilities.*

At December 31, 2007 approximately 97% (December 31, 2006 – 91%) of the total fair value was determined through independent appraisals conducted by a nationally recognized appraisal firm. The Shopping Centres were appraised on an individual basis, with no portfolio effect considered. The remainder of the values of the Shopping Centres, which consisted primarily of recently completed development projects and acquisitions, were based upon the costs of these Shopping Centres to First Capital Realty. The independent appraisals were prepared to comply with the fair value model described in the IAS 40 – Investment Property and the International Valuation Standard.

The primary method of appraisal was the income approach, since purchasers typically focus on expected income. For each property, the appraisers conducted and placed reliance upon a) a direct capitalization method, which is the appraisers' estimate of the relationship between value and stabilized income, normally in the first year and b) a discounted cash flow method, which is the appraisers' estimate of the present value of future cash flows over a specified horizon, including the potential proceeds from a deemed disposition. The determination of these values required Management and the appraisers to make estimates and assumptions that affect the values presented, and actual values in a sales transaction may differ from the values shown above.

Based on these valuation methods, the aggregate weighted average stabilized capitalization rates on the Shopping Centres as at December 31, 2007 and 2006 were 6.56% and 6.81%, respectively.

## QUARTERLY FINANCIAL INFORMATION

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>(thousands of dollars, except per share and other data)</i>								
Property rental revenue	96,643	96,192	93,547	90,509	87,815	81,592	78,634	77,939
Property operating costs	32,832	34,467	33,335	33,812	30,481	29,236	29,119	31,518
Net operating income	63,811	61,725	60,212	56,697	57,334	52,356	49,515	46,421
Equity income from Equity One	4,455	2,253	3,241	4,426	5,517	2,872	19,995	4,312
Net income	9,252	6,940	6,286	7,875	12,035	6,542	20,686	6,696
Basic earnings per share	\$ 0.12	\$ 0.09	\$ 0.08	\$ 0.10	\$ 0.16	\$ 0.09	\$ 0.28	\$ 0.09
Diluted earnings per share	\$ 0.12	\$ 0.09	\$ 0.08	\$ 0.10	\$ 0.16	\$ 0.09	\$ 0.28	\$ 0.09
Weighted average diluted shares outstanding								
– EPS	80,002,983	79,000,640	77,904,479	76,791,907	76,024,888	74,997,493	77,690,795	72,168,535
Funds from operations	32,904	31,364	30,049	31,039	32,688	28,540	28,933	27,025
Funds from operations/ share diluted	\$ 0.41	\$ 0.40	\$ 0.39	\$ 0.40	\$ 0.43	\$ 0.38	\$ 0.39	\$ 0.37
Weighted average diluted shares outstanding								
– FFO	80,002,983	79,000,640	77,904,479	76,791,907	76,024,888	74,997,493	73,987,091	72,168,535
Dividend	\$ 0.32	\$ 0.32	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.30
Total assets	3,409,409	3,348,651	3,292,004	3,211,714	3,060,879	2,849,611	2,714,534	2,633,046
Total mortgages, loans and credit facilities	1,471,114	1,418,216	1,365,626	1,448,441	1,388,650	1,304,611	1,378,861	1,350,863
Shareholders' equity	951,331	943,551	938,159	920,226	911,593	895,440	890,214	847,048
<b>Other Data</b>								
Number of properties	161	163	163	161	158	151	143	137
Gross leasable area	19,382,000	19,161,000	19,017,000	18,884,000	18,166,000	17,338,000	16,793,000	16,398,000
Occupancy %	95.3%	95.0%	95.0%	95.0%	95.7%	95.4%	95.1%	94.7%

The growth over the eight quarters in 2006 and 2007 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 2006 and the first three quarters in 2007. A discussion of the fourth quarter of 2007 follows.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### Q4 2007 Operations and Results

During the fourth quarter of 2007, the Company acquired one income-producing shopping centre comprising of 106,000 square feet located in Nanaimo, British Columbia. The acquisition amount of \$29.6 million, including closing costs, was paid in cash.

The Company also invested \$14.7 million in acquiring additional space and two land parcels at, or adjacent, to existing properties adding 54,000 square feet of gross leasable area and 0.6 acres of expansion land to the portfolio.

In the fourth quarter of 2007, 168,000 square feet of newly developed space came on line in the following shopping centres:

Property Name	City	Province	Square Feet	Major Tenants
<b>Development</b>				
Carrefour Charlemagne	Charlemagne	QC	22,500	Rousseau Sport
Faubourg des Prairies	Montreal	QC	8,700	Familiprix
Shoppes on Dundas	Oakville	ON	9,800	TD Canada Trust
Other space – various projects			10,900	
			51,900	
<b>Redevelopment and Expansion</b>				
Harbour Front Centre	Vancouver	BC	19,000	Petsmart
Galeries Normandie	Montreal	QC	27,000	Pharmaprix
Eagleson Place	Ottawa	ON	16,900	Shoppers Drug Mart
Westmount Shopping Centre	Edmonton	AB	14,100	Scotia Bank, Blockbuster
Westney Heights	Ajax	ON	8,700	Shoppers Home Health Care
Olde Oakville Market Place	Oakville	ON	7,800	Royal Bank of Canada
Towerlane Mall	Airdrie	AB	7,100	Staples
Other space – various projects			15,500	
			116,100	
<b>Total</b>			<b>168,000</b>	

The 168,000 square feet of space developed and brought on line during the quarter was leased at an average rate of \$21.40 per square foot.

In addition to acquisitions of income-producing properties and development assets, the Company invested \$56.7 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 2007 resulted in net new leasing of 191,500 square feet, including development projects coming on line. Renewal leasing totalled 261,200 square feet with a 19.7% increase over expiring rates. Portfolio occupancy at December 31, 2007 increased to 95.3% from 95.0% at September 30, 2007. Properties acquired during the fourth quarter had an average lease rate per square foot of \$17.58 and occupancy of 91.2%. The average rate per occupied square foot at December 31, 2007 increased to \$14.56 from \$14.35 at September 30, 2007.

FFO per diluted share was \$0.41 in the fourth quarter of 2007, compared to \$0.43 in the fourth quarter of 2006. The decrease was due to the non-recurring items in Equity One and related current taxes in 2006 and a decrease in 2007 in revenue recognized on a straight-line basis of \$1.6 million.



	Three months ended	
	December 31 2007	December 31 2006
<i>(thousands of dollars, except per share amounts)</i>		
<b>REVENUE</b>		
Property rental revenue	\$ 96,643	\$ 87,815
Interest and other income	469	3,746
	<b>97,112</b>	91,561
<b>EXPENSES</b>		
Property operating costs	32,832	30,481
Interest expense	28,882	25,323
Amortization	21,379	18,831
Corporate expenses	5,165	6,238
	<b>88,258</b>	80,873
Equity income from Equity One	4,455	5,517
Income before income taxes	13,309	16,205
Income taxes:		
Current	368	653
Future	3,689	3,517
	<b>4,057</b>	4,170
Net income	\$ 9,252	\$ 12,035
Earnings per common share		
Basic	\$ 0.12	\$ 0.16
Diluted	\$ 0.12	\$ 0.16

Acquisitions during 2007, combined with the full impact of acquisitions in the prior year, contributed \$10.4 million to NOI in the quarter, while development and redevelopment activities contributed a further \$8.1 million. Same property NOI increased 3.2%, generating growth of \$1.4 million in the three months ended December 31, 2007.

Interest and other income decreased due to \$3.3 million of gains on marketable securities recognized in the fourth quarter of 2006. Interest expense and amortization expense increased due to the growth in the shopping centres from acquisition and development activity. Equity income decreased due to the sale of the Texas portfolio by Equity One in the second and fourth quarters of 2006.

## EVENTS SUBSEQUENT TO DECEMBER 31, 2007

### Interest on Convertible Debentures

On February 13, 2008, the Company announced that it will pay the interest due on March 31, 2008 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 24, 2008. The interest payment due is approximately \$6.5 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.

### Quarterly Dividend

The Company announced that it will pay a first quarter dividend of \$0.32 per common share on April 9, 2008 to shareholders of record on March 28, 2008.

### Current Outstanding Share Data

As at March 6, 2008, 80,550,792 common shares were issued and outstanding. There were no material changes since December 31, 2007, other than as described above in the amount of options, warrants or convertible debentures outstanding.

## 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, implied or projected 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 the U.S. – Canadian foreign currency exchange rate, 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 except as required by security laws.*

*These forward-looking statements are made as of March 6, 2008.*

## **2008 Outlook**

Over the past several years First Capital Realty has made significant progress in growing its business and generating accretive growth in funds from operations.

The current environment remains extremely competitive, however, the competition seems to have shifted to the capital side of the Company's business. Both debt and equity markets are challenging relative to pricing currently being asked by the vendors. The Company will continue to selectively 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 continue to provide the Company with opportunities to grow within its existing portfolio and to participate in new growth markets. Once completed, these activities typically 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 of low capitalization rates and the increasing cost and scarcity of capital.

Specifically, Management will focus on the following four areas to achieve its objectives in 2008:

- same property net operating income growth;
- development and redevelopment activities;
- increasing efficiency and productivity of operations; and
- capital preservation in order to decrease dependence on capital markets.

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.

Readers should refer to the Company's 2007 year-end press release dated March 6, 2008 as filed on Sedar for earnings guidance for the year ending December 31, 2008.

## **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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

- 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.

### ***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 changes

Effective January 1, 2007, the Company adopted several new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”). The standards are applied on a retroactive basis without restatement of prior periods.

(i) *Comprehensive income – CICA Section 1530*

Comprehensive income consists of net income and other comprehensive income (“OCI”). OCI includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts 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 now include consolidated statements of comprehensive income. The cumulative amount of other comprehensive income is presented as a new category in the consolidated statements of shareholders’ equity. The cumulative currency translation account has been reclassified to accumulated other comprehensive income.

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

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 liabilities classified as held-for-trading are required to be measured at fair value with gains and losses recognized in net income. The Company has currently classified certain of its marketable securities as held-for-trading. None of the Company’s liabilities are currently classified as held-for-trading. Previously, all of the Company’s marketable securities were recorded at cost.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in OCI. Certain of the Company’s marketable securities are classified as available-for-sale.

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. This classification applies to the majority of the Company’s financial assets and liabilities including loans, mortgages, amounts receivable, accounts payable, credit facilities and debentures. The Company now applies the effective interest method of amortization for any transaction costs or fees, premiums or discounts to mortgages, loans and debentures and presents the amortization as non-cash interest expense. Mortgages, loans and debentures are now presented net of all issue costs, premiums and discounts. Previously, these costs were included in other assets and amortized on a straight-line basis.

The classifications above do not apply to the Company’s investment in Equity One, Inc., which continues to be accounted for using the equity method.

Derivative instruments are 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 cash flow hedges. The fair value changes for the effective portion of such cash flow hedges are recognized in OCI. The Company has no significant derivative instruments other than its interest rate swaps.

The standard specifically excludes CICA Section 3065, Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### *(iii) Hedges – CICA Section 3865*

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.

As at the date of adoption of Section 3865, the Company had interest rate swaps which are now recorded in the balance sheet at fair value. The change in fair value with respect to the swaps that have been designated is recorded in other comprehensive income. The change in fair value with respect to swaps that are not designated as hedges under the section, as well as the ineffective portion of designated hedges, are recorded in net income with interest and other income. Previously, only the fair value of undesignated or ineffective hedges was recorded in net income.

### *(iv) Equity – CICA Section 3251*

This new section establishes standards for the presentation of equity and changes in equity during the reporting period. The following components of equity are now presented separately:

- 1) retained earnings or deficit;
- 2) accumulated other comprehensive income;
- 3) the total of (1) and (2);
- 4) contributed surplus;
- 5) share capital

### *(v) Accounting Changes – CICA Section 1506*

The new standard sets out the conditions that must be met for a change in accounting policy to be applied in accordance with GAAP, and sets out how such changes should be applied. As a result of this new standard, the Company has included additional disclosure in Note 2(b) of the financial statements addressing the impact of future accounting policy changes.

### *(vi) Effect of adopting CICA Section 1530, 3855 and 3865*

Shareholders' equity was increased by \$0.9 million on January 1, 2007 as a result of adopting these standards. Net income for the year ended December 31, 2007 increased by \$144,000 as a result of applying the effective interest method and recognizing unrealized gains on marketable securities held for trading.

### **Future accounting policy changes**

The CICA released four new accounting standards that are effective for the Company's fiscal year commencing January 1, 2008: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation, and Section 3064.

Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity considers to be capital.

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments – Disclosure and Presentation. These new sections enhance disclosure requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3064 replaces the existing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. This new standard will be effective for the Company in the first quarter of 2009.

## **CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

First Capital Realty 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, 2007, and have concluded that such disclosure controls and procedures were designed and operating effectively.

### **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, 2007. 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 internal controls and procedures over financial reporting were appropriately designed.

The Company did not make any material changes to the design of internal controls over financial reporting during the three months ended December 31, 2007 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.

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 or internal controls and procedures occur and/or mistakes happen, the Company intends to take whatever steps necessary to minimize the consequences thereof.

### 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 and other risks and can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website [www.firstcapitalrealty.ca](http://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. The Company is also subject to competition from other developers, managers and owners in seeking tenants.



The following chart summarizes the top 40 tenants of the Company, which together represent approximately 58% of the Company's annualized minimum rent from its Canadian portfolio.

Tenant	Number of Stores	Square Feet	Percent of Total Canadian Gross Leasable Area	Percent of Total Canadian Annualized Minimum Rent	DBRS Organization Credit Rating	S&P <sup>(1)</sup> Organization Credit Rating	Moody's Organization Credit Rating	
<b>Top Forty Tenants</b>								
1	Sobeys	43	1,521,000	7.8%	7.4%	BBB (low)	BB+	
2	Loblaws	26	1,412,000	7.3%	6.0%	A(low)	BBB+	
3	Shoppers Drug Mart	50	641,000	3.3%	5.1%	A(low)	BBB+	Ba1
4	Metro	27	996,000	5.1%	4.4%	BBB	BBB	
5	Zellers/Home Outfitters	18	1,654,000	8.5%	4.0%			
6	Canadian Tire	21	782,000	4.0%	3.6%	A(low)	BBB+	
7	TD Canada Trust	34	174,000	0.9%	1.9%	AA	AA-	Aaa
8	Canada Safeway	9	375,000	1.9%	1.6%	BBB	BBB-	Baa2
9	Wal-Mart	4	473,000	2.4%	1.3%	AA	AA	Aa2
10	Royal Bank	23	137,000	0.7%	1.2%	AA	AA-	Aaa
11	Rona	2	257,000	1.3%	1.1%	BBB(high)	BBB-	
12	CIBC	23	113,000	0.6%	1.1%	AA	A+	Aa2
13	Staples	10	232,000	1.2%	1.1%		BBB+	Baa1
14	Scotiabank	21	112,000	0.6%	1.1%	AA	AA-	Aa1
15	H.Y. Louie Group	8	210,000	1.1%	1.1%			
16	Rexall Family of Pharmacies	15	122,000	0.6%	0.9%			
17	LCBO	13	111,000	0.6%	0.9%	AA	AA	Aa1
18	Cara Operations	24	95,000	0.5%	0.8%			
19	Winners	5	177,000	0.9%	0.8%		A	A3
20	Save-On-Foods	4	178,000	0.9%	0.8%			
21	Blockbuster	21	105,000	0.5%	0.8%		B-	Caa2
22	Reitmans	31	155,000	0.8%	0.8%			
23	Rogers	27	95,000	0.5%	0.8%	BBB(low)	BBB-	Ba1
24	SAQ	18	69,000	0.4%	0.7%	A(high)	A+	Aa2
25	Dollarama	19	163,000	0.8%	0.7%		B+	Ba2
26	Tim Hortons	34	96,000	0.5%	0.7%			
27	Future Shop	5	140,000	0.7%	0.7%		BBB	Baa2
28	Bank of Montreal	18	76,000	0.4%	0.6%	AA	A+	Aa1
29	Linens 'n Things	3	107,000	0.6%	0.6%		CCC+	Caa1
30	Goodlife Fitness Club	5	121,000	0.6%	0.6%			
31	Yum! Brands	28	58,000	0.3%	0.6%		BBB-	Baa2
32	Forzani Group	7	88,000	0.5%	0.5%			
33	Toys 'R' Us (Canada) Ltd	3	113,000	0.6%	0.5%		B	B3
34	Starbucks	23	37,000	0.2%	0.5%		BBB+	Baa1
35	Subway	46	56,000	0.3%	0.5%			
36	Michael's Arts & Crafts	4	87,000	0.4%	0.5%		B-	B2
37	Pharmacie Jean Coutu	8	93,000	0.5%	0.4%			
38	Uniprix	7	69,000	0.4%	0.4%			
39	McDonald's	16	43,000	0.2%	0.4%		A	A3
40	The Source By Circuit City	24	52,000	0.3%	0.4%			
<b>Total: Top 40 Tenants</b>		<b>727</b>	<b>11,595,000</b>	<b>59.7%</b>	<b>57.9%</b>			

(1) Standard and Poor's

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

### Lease Maturities

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced or, if renewed or replaced, that rental increases will occur. There can also be no assurance that a tenant will be able to fulfil its existing commitments under leases up to the expiry date. The failure to fulfil existing obligations under leases or to achieve renewals and/or rental increases may have an adverse effect on the financial condition of First Capital Realty.

First Capital Realty's lease maturities are spread on a property-by-property basis, which helps to generate a more stable cash flow and mitigate risks related to changing market conditions. Lease expirations in each of the next ten years range from 1.2% to 11.0% of the annualized minimum rent in the Company's portfolio.

The Company's lease maturity profile at December 31, 2007 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	201,000	1.0%	\$ 3,243,000	1.2%	\$ 16.16
2008	596	1,506,000	7.8%	22,300,000	8.1%	14.80
2009	433	1,425,000	7.4%	24,233,000	8.8%	17.00
2010	412	1,307,000	6.7%	21,790,000	7.9%	16.67
2011	375	1,496,000	7.7%	22,436,000	8.2%	14.99
2012	397	1,759,000	9.1%	30,201,000	11.0%	17.17
2013	194	1,487,000	7.7%	21,257,000	7.7%	14.29
2014	148	941,000	4.9%	14,303,000	5.2%	15.20
2015	154	1,259,000	6.5%	19,427,000	7.1%	15.43
2016	126	1,211,000	6.2%	17,398,000	6.3%	14.36
2017	124	1,159,000	6.0%	17,077,000	6.2%	14.74
2018	32	957,000	4.9%	11,392,000	4.1%	11.90
Thereafter	133	3,755,000	19.4%	49,797,000	18.2%	13.27
<b>Total/Average</b>	<b>3,179</b>	<b>18,463,000</b>	<b>95.3%</b>	<b>\$ 274,854,000</b>	<b>100.0%</b>	<b>\$ 14.89</b>

### 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.

Debt service obligations reduce the funds available for operations, acquisitions, development activities and other business opportunities. There is a possibility that the Company's internally generated cash may not be sufficient to repay all of its outstanding indebtedness. Upon the expiry of the term of the financing on any particular property owned by the Company, refinancing on a conventional mortgage loan basis may not be available in the amount required or may be available only on terms less favourable to the Company than the existing financing. This will be dependent upon the economic circumstances prevailing at such time. Also, a disruption in the capital markets could have an adverse impact on the Company's ability to meet its obligations and grow its business. The Company may elect to repay certain indebtedness through refinancings or through the issuance of equity securities. The Company's strategy of spreading the maturities of its debt is also helpful in mitigating its exposure to interest rate fluctuations.

### Credit Ratings

Changes or anticipated changes in the credit rating assigned by DBRS or Moody's to the Company's senior unsecured debentures 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 rent receivables 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, some or a significant portion of these straight-line rents receivable, which totalled \$25.9 million at December 31, 2007, may not be collected. Under Canadian GAAP, the Company records 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. At December 31, 2007 the allowance for doubtful accounts related to straight-line rent receivables totalled \$4.5 million. The current allowance for doubtful accounts may not be adequate for future write-offs of these straight-line rents receivable.

### **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, although the Company may not succeed in identifying such opportunities or may not succeed in completing them.

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.

The increasingly competitive real estate market has led to lower capitalization rates for new acquisitions in certain of the markets in which the Company operates. Lower capitalization rates mean a smaller spread between the Company's cost of capital and return on acquisitions and may therefore have a negative impact on the Company's earnings growth.

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.

### **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.

In addition, given that the Company is a holder of U.S. equity securities and may not have sufficient access to borrowings denominated in U.S. dollars, the Company is subject to fluctuations in currency exchange rates or regulations, or the costs of currency conversion which may, from time to time, adversely impact its financial position and 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	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
<b>ONTARIO</b>					
Adelaide Shoppers	London	2005	19,000	100.0%	Shoppers Drug Mart, Wendy's
Ambassador Plaza	Windsor	1994	151,000	99.2%	Zellers, LCBO, CIBC, Scotiabank, Royal Bank of Canada, Rogers Video
Appleby Mall	Burlington	2004	181,000	98.1%	Fortino's (Loblaws), Pharma Plus, LCBO, Bank of Montreal, TD Canada Trust, Home Hardware
Bayview Lane Plaza	Markham	2003	46,000	46.0%	Bank of Montreal
Bowmanville Mall	Bowmanville	2005	123,000	94.7%	A&P, Shoppers Drug Mart, Dollarama, GoodLife Fitness
Brampton Corners	Brampton	2001	302,000	100.0%	Fortino's (Loblaws), Wal-Mart, Chapters, National Bank, Scotiabank, Kelsey's, HSBC
Brantford Mall	Brantford	1995	328,000	88.9%	Zehrs (Loblaws), Wal-Mart, Cineplex, LCBO, Reitmans
Bridgeport Plaza	Waterloo	1994	212,000	99.5%	Sobeys, Zellers, Rogers Video, Tim Hortons
Brooklin Towne Centre	Whitby	2003	90,000	100.0%	Price Chopper (Sobeys), Shoppers Drug Mart, Scotiabank, Tim Hortons
Burlingwood Shopping Centre	Burlington	2005	67,000	94.1%	No Frills (Loblaws), Pharma Plus
Byron Village	London	2002	89,000	96.0%	A&P, Pharma Plus, LCBO, TD Canada Trust, Rogers Video
Cedarbrae Mall	Toronto	1996	509,000	98.3%	Loblaws, Zellers, Canadian Tire, Toys 'R' Us, LCBO, Scotia Bank, CIBC, Extreme Fitness, Dollarama, Business Depot (Staples), Mark's Work Wearhouse
Chartwell Shopping Centre	Toronto	2005	161,000	95.2%	Price Chopper (Sobeys), Shoppers Drug Mart, CIBC, Bank of Montreal
Chemong Park Plaza	Peterborough	2001	68,000	96.1%	Sobeys, Government of Canada, TD Canada Trust
Clairfields Common	Guelph	2006	85,000	100.0%	Shoppers Drug Mart, TD Canada Trust, Scotiabank, Food Basics, Starbucks
College Square <sup>(3)</sup>	Ottawa	2005	388,000	100.0%	Loblaws, Home Depot, Pharma Plus, Rogers, Reitmans, LCBO, Bank of Montreal, The Beer Store, Tim Hortons
Credit Valley Town Plaza	Mississauga	2003	101,000	98.5%	Loblaws, Pharma Plus, CIBC, TD Canada Trust, Rogers Video, Tim Hortons
Delta Centre	Cambridge	1998	79,000	98.5%	Price Chopper (Sobeys), Dollarama, Shoppers Home Health Care
Dufferin Corners	Toronto	2003	75,000	94.7%	Shoppers Drug Mart, TD Canada Trust, Royal Bank of Canada
Eagleson Cope Drive	Ottawa	2003	103,000	100.0%	Real Canadian Superstore (Loblaws)
Eagleson Place	Ottawa	2003	48,000	82.6%	Shoppers Drug Mart, Rogers Video, The Beer Store, TD Canada Trust
Fairview Mall	St. Catharines	1994	389,000	99.0%	Food Basics (A&P), Zehrs <sup>(1)</sup> (Loblaws), Zellers, Chapters, Office Depot, Future Shop, Winners, Mark's Work Wearhouse, LCBO, CIBC, Scotiabank, Sport Chek
Fairway Plaza	Kitchener	2005	246,000	98.1%	Food Basics (A&P), Winners/Home Sense, Sport Chek, Pier 1 Imports, Dollarama, GoodLife Fitness, Starbucks
Gloucester City Centre	Ottawa	2003	346,000	96.7%	Loblaws, Zellers, Pharma Plus, Scotiabank, CIBC, Tim Hortons
Grimsby Square Shopping Centre	Grimsby	2005	143,000	98.2%	Sobeys, Canadian Tire, Shoppers Drug Mart, Royal Bank of Canada, Mark's Work Wearhouse, The Beer Store
<b>Halton Hills Village</b>	Georgetown	<b>2007</b>	104,000	91.9%	A&P, TD Canada Trust, Tim Hortons
Harwood Plaza	Ajax	1999	220,000	92.4%	Food Basics (A&P), Shoppers Drug Mart, Scotiabank, Blockbuster, GoodLife Fitness, Tim Hortons
Humbertown Shopping Centre	Toronto	2006	141,000	96.5%	Loblaws, Scotiabank, Blockbuster, LCBO, Shoppers Drug Mart, Royal Bank of Canada
Hyde Park Plaza	London	2006	52,000	100.0%	Remark Farm, Shoppers Drug Mart, Bank of Montreal, Starbucks
<b>Laurelwood Shopping Centre</b>	Waterloo	<b>2007</b>	92,000	100.0%	Sobeys, LCBO, TD Canada Trust, Starbucks
Loblaws Plaza	Ottawa	2005	128,000	100.0%	Loblaws, Royal Bank of Canada, Shoppers Drug Mart
Maple Grove Village	Oakville	2003	111,000	93.3%	Sobeys, Pharma Plus, CIBC, Rogers Video, Tim Hortons, The Beer Store
McLaughlin Corners <sup>(3)</sup>	Brampton	2002	120,000	100.0%	A&P, Shoppers Drug Mart, Royal Bank of Canada, Rogers Video, Pizza Hut
Meadowvale Town Centre	Mississauga	2003	385,000	99.7%	Dominion (A&P), Canadian Tire, Shoppers Drug Mart, LCBO, TD Canada Trust, CIBC, Bank of Montreal, Blockbuster, Tim Hortons, Premier Fitness
Merchandise Building	Toronto	2004	53,000	73.3%	Dominion (A&P)
Midland Lawrence Plaza	Toronto	2002	76,000	94.5%	Price Chopper (Sobeys), Part Source (Canadian Tire)
<b>Morningside Crossing</b>	Toronto	<b>2007</b>	40,000	100.0%	TD Canada Trust, CIBC, Starbucks, Pizza Hut, Blockbuster
Norfolk Mall	Tillsonburg	2004	88,000	99.5%	Zehrs (Loblaws) <sup>(1)</sup> , Wal-Mart, Dollarama
Northfield Centre	Waterloo	1999	52,000	100.0%	Sobeys, Pharma Plus, Royal Bank of Canada, Rogers Video, Tim Hortons
Olde Oakville	Oakville	2006	96,000	100.0%	Whole Foods, Shoppers Drug Mart, HSBC, Royal Bank of Canada, Starbucks, Blockbuster
Orleans Gardens <sup>(3)</sup>	Ottawa	2005	111,000	87.9%	Your Independent Grocer (Loblaws), CIBC, Rogers Video, Pharma Plus, Tim Hortons
Parkway Centre	Peterborough	1996	253,000	100.0%	Price Chopper (Sobeys), Zellers, Winners, Reitmans, Sport Mart, Dollarama
Queenston Place	Hamilton	1995	172,000	100.0%	Zellers, Mark's Work Wearhouse, Pennington's (Reitmans), Aaron's Electronics, Hamilton Produce
Sheridan Plaza	Toronto	1995	168,000	100.0%	Food Basics (A&P), Zellers
<b>Shoppes on Dundas</b>	Oakville	<b>2007</b>	28,000	100.0%	Shoppers Drug Mart, TD Canada Trust

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
<b>ONTARIO</b> (cont'd)					
Shops at King Liberty	Toronto	2004	198,000	95.7%	Dominion, LCBO, TD Canada Trust, Blockbuster, Starbucks, Royal Bank of Canada, GoodLife Fitness, First Capital Realty Inc.
Stanley Park Mall	Kitchener	1997	190,000	98.7%	Zehrs (Loblaws), Zellers, Pharma Plus, LCBO, TD Canada Trust
Steeple Hill Shopping Centre	Pickering	2000	79,000	78.0%	Price Chopper (Sobeys), Shoppers Drug Mart, Blockbuster
Stoneybrook Plaza	London	2006	55,000	100.0%	Sobeys, Pharma Plus, TD Canada Trust
Strandherd Crossing	Ottawa	2004	103,000	100.0%	Loeb (Metro), Shoppers Drug Mart, Royal Bank of Canada, TD Canada Trust, Rogers Video, Starbucks
Sunningdale Village	London	2006	73,000	99.0%	No Frills, Shoppers Drug Mart, Starbucks
Thickson Place	Whitby	1997	93,000	100.0%	A&P, Toys 'R' Us <sup>(1)</sup> , CIBC, TD Canada Trust
Tillsonburg Town Centre <sup>(2)</sup>	Tillsonburg	1994	278,000	89.4%	Zellers, Canadian Tire, Business Depot (Staples), Shoppers Drug Mart, LCBO, CIBC, TD Canada Trust, Rogers Video, Mark's Work Warehouse, Reitmans
University Plaza	Windsor	2001	150,000	96.8%	A&P, Canadian Tire, Shoppers Drug Mart, Bank of Montreal, Dollarama
Waterloo Shoppers Drug Mart	Waterloo	2004	15,000	100.0%	Shoppers Drug Mart
Wellington Corners	London	1999	82,000	98.5%	Price Chopper (Sobeys), Shoppers Drug Mart, Starbucks
Westney Heights Plaza	Ajax	2002	156,000	100.0%	Sobeys, Shoppers Drug Mart, CIBC, Scotiabank, TD Canada Trust, Rogers Video, Sherwin Williams
Yonge-Davis Centre	Newmarket	2003	51,000	100.0%	Sleep Country
York Mills Gardens	Toronto	2004	169,000	97.2%	Longo's Supermarket, Shoppers Drug Mart, TD Canada Trust, Rogers Video, Kelsey's, Swiss Chalet, Wendy's, Shoeless Joe's, Starbucks, Pizza Hut, Royal Bank of Canada
1842-1852 Queen Street West	Toronto	2006	14,000	87.7%	Starbucks
<b>Total – ONTARIO</b>			<b>8,613,000</b>	<b>96.8%</b>	
<b>QUEBEC</b>					
Carrefour Charlemagne	Charlemagne	2006	162,000	100.0%	Rona, Sports Rousseau
Carrefour des Forges	Drummondville	2005	55,000	100.0%	IGA (Sobeys), SAQ
<b>Centre D'Achats Ville Mont-Royal</b>	Mount Royal	<b>2007</b>	132,000	94.7%	Provigo, Scotiabank, Blockbuster
Carrefour Don Quichotte	Île Perrot	2004	72,000	84.5%	Metro, Familiprix, CIBC
Carrefour du Versant	Gatineau	2003	87,000	100.0%	IGA (Sobeys), Dollarama, Familiprix, TD Canada Trust, SAQ, Tim Hortons
Carrefour Soumande	Québec City	2004	140,000	88.6%	Toys 'R' Us, Fruiterie 440
Carrefour St. David	Québec City	2006	49,000	100.0%	Metro Plus, TD Canada Trust, Starbucks
Carrefour St. Hubert	Longueuil	2002	157,000	56.0%	Jean Coutu, CIBC, SAQ, Dollarama
Centre commercial Beaconsfield	Beaconsfield	2002	116,000	86.3%	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank of Canada, Dollarama
Centre commercial Côte St. Luc	Côte St. Luc	2002	162,000	95.3%	IGA (Sobeys), Jean Coutu, SAQ, Royal Bank of Canada, Blockbuster, Dollarama, Reitmans
Centre commercial Domaine	Montréal	2002	195,000	97.9%	Metro <sup>(3)</sup> , Zellers, Rossy, CIBC, Dollarama, Uniprix, Reitmans, Tim Hortons
Centre commercial Maisonneuve <sup>(2)</sup>	Montréal	2003	114,000	100.0%	Provigo (Loblaws), Canadian Tire, TD Canada Trust, SAQ, Brunet
Centre commercial Van Horne	Montréal	2002	79,000	95.0%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Royal Bank of Canada, Scotiabank, Tim Hortons
Centre commercial Wilderton	Montréal	2002	130,000	95.2%	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank of Canada, Laurentian Bank, Femme Fitness, Dollarama
Centre Kirkland / St. Charles	Kirkland	2006	114,000	96.8%	Uniprix, Bank of Montreal, Dollarama, CIBC, SAQ
Centre Maxi Trois Rivières	Trois Rivières	2003	122,000	88.2%	Maxi (Loblaws), Value Village, Jean Coutu, Bank of Montreal, Blockbuster, Tim Hortons
Édifice Gordon	Montréal	2005	19,000	87.4%	Pharmaprix (Shoppers Drug Mart)
Édifice Hooper	Sherbrooke	2005	141,000	83.4%	IGA Extra (Sobeys), Familiprix
<b>Faubourg des Prairies</b>	Montréal	<b>2007</b>	54,000	100.0%	IGA (Sobeys), SAQ, Familiprix
Galeries Brien	Repentigny	2002	59,000	100.0%	IGA (Sobeys), Uniprix
Galeries des Chesnaye	Lachenaie	2005	58,000	90.7%	IGA (Sobeys), Uniprix, SAQ, Desjardins
Galeries Normandie	Montréal	2002	210,000	89.3%	IGA (Sobeys), Pharmaprix, Bank of Montreal, Desjardins, Royal Bank of Canada, SAQ, Baron Sports, Dollarama, Rona Express, Blockbuster
IGA Tremblant	Mont-Tremblant	2004	38,000	100.0%	IGA (Sobeys)
La Porte de Châteauguay	Châteauguay	1995	132,000	100.0%	Zellers, Blockbuster, Tim Hortons
La Porte de Gatineau	Gatineau	1994	155,000	96.3%	Maxi (Loblaws), Toys 'R' Us <sup>(1)</sup> , Future Shop, CIBC, TD Canada Trust, SAQ, Lazy Boy Furniture
Le Campanile & Place de Commerce	Montréal	2003	105,000	92.5%	Pharmaprix (Shoppers Drug Mart), Bank of Montreal, IGA (Sobeys), Jean Coutu

## SHOPPING CENTRE PORTFOLIO – continued

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
<b>QUEBEC</b> (cont'd)					
Les Galeries de Lanaudière <sup>(3)</sup>	Lachenaie	2002	269,000	100.0%	Bureau en Gros (Staples), Winners, Future Shop, Sears, Home Depot <sup>(1)</sup> , Pier 1 Imports, Reitmans, TD Canada Trust
Les Galeries de Repentigny	Repentigny	1997	121,000	100.0%	Super C (Metro), Pharmaprix (Shoppers Drug Mart), Tim Hortons
Les Promenades du Parc	Longueuil	1997	105,000	97.1%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Blockbuster, National Bank, Tim Hortons
Place Bordeaux <sup>(5)</sup>	Gatineau	2002	29,000	100.0%	Pharmaprix (Shoppers Drug Mart), National Bank
Place Cité Des Jeunes	Gatineau	2001	58,000	92.7%	Metro, Uniprix
Place de la Colline	Chicoutimi	2004	52,000	100.0%	Maxi (Loblaws), Uniprix, Dollarama, McDonald's
Place des Cormiers	Sept-Îles	2004	75,000	100.0%	Provigo (Loblaws), Bureau en Gros (Staples), SAQ
Place Fleury	Montréal	2002	108,000	100.0%	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Reitmans, Bank of Montreal
Place Kirkland	Kirkland	2006	47,000	94.4%	IGA (Sobeys), CIBC, Videotron
Place Lorraine	Lorraine	2006	61,000	91.6%	Provigo (Loblaws), National Bank, SAQ
Place Michelet	Montréal	2005	59,000	100.0%	IGA Extra (Sobeys), TD Canada Trust, A&W
Place Nelligan <sup>(4)</sup>	Gatineau	2002	57,000	100.0%	IGA (Sobeys), Citifinancial
Place Panama	Brossard	2006	94,000	95.5%	Loblaws <sup>(1)</sup>
Place Pierre Boucher	Boucherville Borough	2004	80,000	92.6%	Maxi (Loblaws), Pharmaprix (Shoppers Drug Mart), SAQ
Place Pointe-aux-Trembles	Montréal	2002	118,000	93.4%	Metro, Rossy, Jean Coutu
Place Provencher	Montréal	2004	46,000	100.0%	Bureau en Gros (Staples), Uniprix
Place Roland Therrien	Longueuil	2000	42,000	100.0%	Super C (Metro) <sup>(1)</sup> , Scotiabank, Blockbuster
Place Seigneuriale	Québec City	2004	54,000	85.9%	Metro, Royal Bank of Canada, Nautilus Plus
Place Viau	Montréal	2002	152,000	100.0%	Zellers
Place Vilamont	Laval	2002	72,000	95.9%	Provigo (Loblaws), Jean Coutu, Laurentian Bank
Plaza Actuel	Longueuil	2006	58,000	100.0%	Pontiac Buick, Pizza Hut, Rotisserie St-Hubert
Plaza Delson	Delson	2002	169,000	97.3%	Loblaws, Pharmaprix (Shoppers Drug Mart), Cineplex, SAQ, National Bank, Tim Hortons, Harveys
Plaza Don Quichotte	Île Perrot	2004	134,000	100.0%	IGA (Sobeys), SAQ, Caisse Populaire, Desjardins, Aubainerie, Laurentian Bank, Tim Hortons
Plaza Laval Élysée	Laval	2004	63,000	100.0%	Provigo (Loblaws), Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Tim Hortons
Promenades Lévis	Lévis	2004	149,000	96.8%	Metro, Bank of Montreal, Jean Coutu, Easy Home, McDonald's
Queen Mary	Montréal	2006	6,000	100.0%	Couche Tard, Tim Hortons
Toys 'R' Us / Pier 1 Imports	Montréal	2002	52,000	100.0%	Toys 'R' Us, Pier 1 Imports
Village des Valeurs	Laval	2002	27,000	100.0%	Value Village
<b>Total – QUEBEC</b>			<b>5,215,000</b>	<b>94.7%</b>	
<b>ALBERTA</b>					
Cochrane City Centre	Cochrane	2006	60,000	65.2%	Shoppers Drug Mart, Blockbuster, Starbucks
Eastview Shopping Centre	Red Deer	2004	34,000	100.0%	IGA, Bank of Montreal, 7-Eleven
Fairmount Shopping Centre	Calgary	2006	58,000	64.1%	Royal Bank of Canada, Tim Hortons
Gateway Village	St. Albert	1994	105,000	86.3%	Safeway, CIBC, Scotiabank, Tim Hortons
Kingsland Shopping Centre	Calgary	2005	46,000	86.8%	Shoppers Drug Mart, Starbucks
Lakeview Plaza	Calgary	2005	64,000	96.7%	IGA (Sobeys), Super Drug Mart, Scotiabank
London Place West	Calgary	1998	72,000	100.0%	London Drugs, Bank of Montreal, Rogers Video
McKenzie Towne Centre	Calgary	2003	115,000	100.0%	Sobeys, Rexall, Blockbuster
Northgate Centre	Edmonton	1997	511,000	84.9%	Safeway, Zellers, Future Shop, Royal Bank of Canada, Sport Mart
Old Strathcona	Edmonton	2003	78,000	98.2%	Canada Post, Dollarama
Red Deer Village	Red Deer	1999	217,000	99.0%	Sobeys, Shoppers Drug Mart, Canadian Tire, Mark's Work Wearhouse, Sport Mart, TD Canada Trust, HSBC, Rogers Video, Reitmans, Starbucks
Richmond Square	Calgary	2006	157,000	99.2%	Canadian Tire <sup>(1)</sup> , Home Outfitters, GoodLife Fitness
Royal Oak <sup>(6)</sup>	Calgary	2003	336,000	100.0%	Sobeys, Wal-Mart, London Drugs, Royal Bank of Canada, Blockbuster, Royal Oak Clinic, Reitmans, Petcetera, Home Outfitters
Sherwood Centre	Sherwood Park	1997	76,000	75.5%	Save-On-Foods <sup>(1)</sup> , CIBC, Rogers Video
Sherwood Towne Centre	Sherwood Park	1997	120,000	100.0%	Home Depot <sup>(1)</sup> , Mark's Work Wearhouse, Staples, Home Sense, Royal Bank of Canada, Michael's
South Park Centre	Edmonton	1996	378,000	96.9%	Canadian Tire, Zellers, Toys 'R' Us <sup>(1)</sup> , Office Depot (Safeway), Linens 'n Things, Laura's Shoppes, Sport Chek, Starbucks

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
<b>Staples Gateway</b>	Edmonton	<b>2007</b>	40,000	100.0%	Staples, Mark's Work Wearhouse
Towerlane Mall	Airdrie	2005	210,000	88.3%	Safeway, Staples, Saan Store, Super Drug Mart, TD Canada Trust, Blockbuster
TransCanada Centre	Calgary	2006	187,000	98.7%	Safeway, Rexall, Tim Hortons, Rogers Video
Tuscany Market	Calgary	2003	86,000	100.0%	Sobeys, Rexall, Scotiabank, Starbucks
Uplands Common	North Lethbridge	2005	53,000	100.0%	Sobeys
Village Market	Sherwood Park	1997	115,000	97.9%	Safeway, London Drugs, Scotiabank, Tim Hortons
West Lethbridge Towne Centre	Lethbridge	1998	96,000	100.0%	Safeway, Home Hardware, Blockbuster, Starbucks, Scotiabank
<b>Westmount Shopping Centre</b>	Edmonton	<b>2007</b>	439,000	87.6%	Shoppers Drug Mart, Safeway, Scotia Bank, TD Canada Trust, Zellers, Dollarama, Tim Hortons, Blockbuster, Bank of Montreal
9630 Macleod Trail	Calgary	2006	127,000	100.0%	Rona
<b>Total – ALBERTA</b>			<b>3,779,000</b>	<b>93.1%</b>	
<b>BRITISH COLUMBIA</b>					
Broadmoor Shopping Centre	Richmond	2005	43,000	75.7%	Royal Bank of Canada, Coast Capital Savings
Coronation Mall	Duncan	2005	58,000	100.0%	Save-On-Foods, TD Canada Trust, Blockbuster, BC Liquor Store
Harbour Front Centre	Vancouver	2005	166,000	99.3%	Canadian Tire, Michael's, Vancity, Kelsey's, Mark's Work Wearhouse, PetSmart
Langley Crossing Shopping Centre	Langley	2005	126,000	88.4%	Shoppers Drug Mart, Longe & McQuade, Dollar Max, BDO Dunwoody LLP, CitiFinancial
Langley Mall	Langley	2005	132,000	96.5%	IGA Marketplace (H. Y. Louie Group), Army & Navy, TD Canada Trust
Linens Buildings	Coquitlam	2006	38,000	100.0%	Linens 'n Things
<b>Longwood Station</b>	Nanaimo	<b>2007</b>	106,000	95.3%	Thrifty Foods, TD Canada Trust, Boston Pizza
Pemberton Plaza	Vancouver	2005	96,000	96.0%	Save-On-Foods, Vancity, Starbucks
Port Place Shopping Centre	Nanaimo	2006	142,000	85.5%	London Drugs, BC Liquor Store, CIBC, Thrifty Foods
Scott 72 Centre	Delta	2004	165,000	92.9%	London Drugs, Staples, TD Canada Trust, Vancity, Starbucks
Staples Lougheed	Burnaby	2006	32,000	100.0%	Staples Business Depot
Terminal Park	Nanaimo	2006	29,000	100.0%	Bank of Montreal, BC Liquor Store, Save-On-Foods <sup>(1)</sup>
Terra Nova Shopping Centre	Richmond	2005	72,000	100.0%	Save-On-Foods, Royal Bank of Canada, Coast Capital Savings, Pizza Hut, Starbucks
The Olive	Vancouver	2006	21,000	100.0%	Capers Market
Time Marketplace	Vancouver	2004	43,000	100.0%	IGA Marketplace (H. Y. Louie Group), Shoppers Drug Mart
West Oaks Mall <sup>(3)</sup>	Abbotsford	2004	266,000	97.3%	Save-On-Foods, Linens 'n Things, London Drugs, Future Shop, Michael's, Reitmans, CIBC, Pier 1 Imports, Sport Mart, Tim Hortons, Starbucks
Woodgrove Crossing	Nanaimo	2006	60,000	100.0%	Michael's, Sleep Country, Petcetera
<b>Total – BRITISH COLUMBIA</b>			<b>1,593,000</b>	<b>95.0%</b>	
<b>OTHERS</b>					
Cole Harbour Shopping Centre	Dartmouth, NS	1997	50,000	100.0%	Sobeys <sup>(1)</sup> , Canadian Tire <sup>(1)</sup> , Shoppers Drug Mart, TD Canada Trust
Regent Park Shopping Centre	Regina, SK	1999	66,000	85.2%	Safeway, Scotiabank
Registan Shopping Centre	Regina, SK	1999	26,000	94.5%	Safeway, Scotiabank
Ropewalk Lane	St. John's, NF	1997	40,000	75.8%	Government of NFLD, Tim Hortons
<b>Total – OTHERS</b>			<b>182,000</b>	<b>89.2%</b>	
<b>TOTAL – CANADA: 12/31/2007</b>			<b>19,382,000</b>	<b>95.3%</b>	

(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 February 28, 2008.

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

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

As at December 31, 2007, 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, 2007 and 2006 and the consolidated statements of earnings, comprehensive income, 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, 2007 and 2006, 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

February 28, 2008



Chartered Accountants

Licensed Public Accountants



# CONSOLIDATED BALANCE SHEETS

December 31 (thousands of dollars)

2007

2006

## ASSETS

Real Estate Investments		
Shopping centres (note 3)	\$ 2,718,078	\$ 2,423,801
Land and shopping centres under development (note 4)	284,077	178,347
Deferred costs (note 5)	79,606	74,778
Intangible assets (note 6)	35,938	31,868
	<b>3,117,699</b>	2,708,794
Investment in Equity One, Inc. (note 7)	191,536	228,665
Loans, mortgages and other real estate assets (note 8)	11,589	24,056
	<b>3,320,824</b>	2,961,515
Other assets (note 9)	32,395	47,129
Amounts receivable (note 10)	36,008	28,070
Cash and cash equivalents	10,451	6,810
Future income tax assets (note 18)	9,731	17,355
	<b>\$ 3,409,409</b>	\$ 3,060,879

## LIABILITIES

Mortgages, loans and credit facilities (note 11)	\$ 1,471,114	\$ 1,388,650
Accounts payable and other liabilities (note 12)	110,006	106,145
Intangible liabilities (note 6)	17,795	18,453
Senior unsecured debentures (note 13)	595,376	399,813
Convertible debentures (note 14)	217,030	192,189
Future income tax liabilities (note 18)	46,757	44,036
	<b>2,458,078</b>	2,149,286

## SHAREHOLDERS' EQUITY

	<b>951,331</b>	911,593
	<b>\$ 3,409,409</b>	\$ 3,060,879

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>	<b>2007</b>	2006
<b>REVENUE</b>		
Property rental revenue	\$ 376,891	\$ 325,980
Interest and other income (note 16)	6,033	6,917
	<b>382,924</b>	332,897
<b>EXPENSES</b>		
Property operating costs	134,446	120,354
Interest expense (note 17)	116,043	93,809
Amortization		
Shopping centres	55,118	46,441
Deferred costs	14,629	12,118
Intangible assets	8,217	5,693
Deferred financing fees	813	3,178
Other assets	1,051	1,011
Corporate expenses	23,544	19,282
	<b>353,861</b>	301,886
Equity income from Equity One, Inc. (note 7 )	14,375	32,696
Loss on settlement of debt (note 11)	(483)	—
Income before income taxes	42,955	63,707
Income taxes (note 18):		
Current	1,672	4,155
Future	10,930	13,593
	<b>12,602</b>	17,748
Net income	\$ 30,353	\$ 45,959
Earnings per common share (note 19)		
Basic	\$ 0.39	\$ 0.62
Diluted	\$ 0.39	\$ 0.62

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>Years ended December 31 (thousands of dollars)</i>	<b>2007</b>	2006
NET INCOME	<b>\$ 30,353</b>	\$ 45,959
OTHER COMPREHENSIVE INCOME (note 2)		
Unrealized foreign currency (loss) gain on translating self-sustaining foreign operations	<b>(9,950)</b>	407
Other comprehensive loss of Equity One, Inc.	<b>(320)</b>	—
Loss on cash flow hedges of interest rates	<b>(2,300)</b>	—
Change in cumulative unrealized gain on available-for-sale marketable securities	<b>(241)</b>	—
Reclassification of adjustment for gains and losses on cash flow hedges of interest rates included in income	<b>(436)</b>	—
Other comprehensive (loss) income before income taxes	<b>(13,247)</b>	407
Future income tax recovery	<b>(1,044)</b>	—
Other comprehensive (loss) income	<b>(12,203)</b>	407
<b>COMPREHENSIVE INCOME</b>	<b>\$ 18,150</b>	\$ 46,366

*See accompanying notes to the consolidated financial statements*

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(thousands of dollars)</i>	Other Comprehensive Deficit	Income/(Loss) (note 2)	Accumulated Comprehensive Income/(Loss)	Share Capital (note 15)	Contributed Surplus	Convertible Debentures Equity Component (note 14)	Options, Deferred Share Units and Warrants (note 15)	Total (note 15)
Shareholders' equity, December 31, 2006	\$ (236,567)	\$ (14,170)	\$ (250,737)	\$ 1,128,926	\$ 19,513	\$ 9,030	\$ 4,861	\$ 911,593
Effect of changes in accounting policies on January 1, 2007 (note 2)	520	408	928	—	—	—	—	928
Changes during the period:								
Net income	30,353	—	30,353	—	—	—	—	30,353
Issuance of common shares	—	—	—	1,292	—	—	—	1,292
Dividends	(98,688)	—	(98,688)	—	—	—	—	(98,688)
Dividends reinvested in common shares	—	—	—	74,962	—	—	—	74,962
Payment of interest on convertible debentures	—	—	—	12,048	—	—	—	12,048
Equity component on issuance of convertible debentures	—	—	—	—	—	7,387	—	7,387
Conversion of convertible debentures	—	—	—	16,325	—	(512)	—	15,813
Exercise of warrants	—	—	—	1,503	—	—	(96)	1,407
Options vested	—	—	—	—	—	—	2,253	2,253
Exercise of options	—	—	—	3,385	—	—	(169)	3,216
Deferred share units	—	—	—	—	—	—	523	523
Exercise of deferred share units	—	—	—	162	—	—	(162)	—
Restricted share units	—	—	—	—	—	—	2,056	2,056
Exercise of restricted share units	—	—	—	—	—	—	(1,292)	(1,292)
Issue costs	—	—	—	(317)	—	—	—	(317)
Other comprehensive loss	—	(12,203)	(12,203)	—	—	—	—	(12,203)
Shareholders' equity, December 31, 2007	\$ (304,382)	\$ (25,965)	\$ (330,347)	\$ 1,238,286	\$ 19,513	\$ 15,905	\$ 7,974	\$ 951,331

See accompanying notes to the consolidated financial statements

<i>(thousands of dollars)</i>	Other Comprehensive Deficit	Income/(Loss) (note 2)	Accumulated Comprehensive Income/(Loss)	Share Capital (note 15)	Contributed Surplus	Convertible Debentures Equity Component (note 14)	Options, Deferred Share Units and Warrants (note 15)	Total
Shareholders' equity, December 31, 2005	\$ (191,584)	\$ (14,577)	\$ (206,161)	\$ 1,022,701	\$ 19,513	\$ 3,015	\$ 3,476	\$ 842,544
Changes during the period:								
Net income	45,959	—	45,959	—	—	—	—	45,959
Issuance of common shares	—	—	—	30,445	—	—	—	30,445
Dividends	(90,942)	—	(90,942)	—	—	—	—	(90,942)
Dividends reinvested in common shares	—	—	—	66,054	—	—	—	66,054
Payment of interest on convertible debentures	—	—	—	4,295	—	—	—	4,295
Equity component on issuance of convertible debentures	—	—	—	—	—	6,015	—	6,015
Options vested	—	—	—	—	—	—	975	975
Exercise of warrants	—	—	—	4,165	—	—	(236)	3,929
Exercise of options	—	—	—	2,211	—	—	(73)	2,138
Deferred share units	—	—	—	—	—	—	756	756
Restricted share units	—	—	—	—	—	—	1,182	1,182
Exercise of restricted share units	—	—	—	—	—	—	(1,219)	(1,219)
Issue costs	—	—	—	(945)	—	—	—	(945)
Other comprehensive income	—	407	407	—	—	—	—	407
Shareholders' equity, December 31, 2006	\$ (236,567)	\$ (14,170)	\$ (250,737)	\$ 1,128,926	\$ 19,513	\$ 9,030	\$ 4,861	\$ 911,593

See accompanying notes to the consolidated financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended December 31 (thousands of dollars)</i>	<b>2007</b>	2006
<b>CASH FLOW PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 30,353	\$ 45,959
Items not affecting cash (note 21a)	82,150	42,644
Deferred leasing costs	(3,429)	(5,613)
Settlement of restricted share units	(1,826)	(1,914)
Dividends received from Equity One, Inc. (note 7)	17,617	33,266
Net change in non-cash operating items (note 21b)	8,191	831
Cash provided by operating activities	<b>133,056</b>	115,173
<b>INVESTING ACTIVITIES</b>		
Acquisition of shopping centres (note 3)	(230,554)	(361,329)
Acquisition of land for development (note 4)	(65,562)	(34,227)
Proceeds from disposition of shopping centre	6,400	—
Proceeds from disposition of land for development	—	1,236
Expenditures on shopping centres	(23,718)	(19,429)
Expenditures on land and shopping centres under development	(143,744)	(83,449)
Investment in common shares of Equity One, Inc. (note 7)	(2,254)	(16,936)
Changes in loans, mortgages and other real estate assets (note 21c)	14,013	6,568
Cash used in investing activities	<b>(445,419)</b>	(507,566)
<b>FINANCING ACTIVITIES</b>		
Mortgage financings, loans and credit facilities		
Borrowings, net of financing costs	425,428	280,904
Principal instalment payments	(39,400)	(36,412)
Repayments on maturity	(305,554)	(260,446)
Issuance of common shares, net of issue costs	5,976	35,867
Issuance of senior unsecured debentures, net of issue costs (note 13)	198,296	297,035
Issuance of convertible debentures, net of issue costs (note 14)	53,299	99,029
Payment of dividends	(21,066)	(22,466)
Cash provided by financing activities	<b>316,979</b>	393,511
Effect of currency rate movement on cash balances	(975)	357
Increase in cash and cash equivalents	3,641	1,475
Cash and cash equivalents, beginning of the year	6,810	5,335
Cash and cash equivalents, end of the year (note 21d)	<b>\$ 10,451</b>	\$ 6,810

See accompanying notes to the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

## 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.

### (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, incremental direct internal costs, 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**

Effective January 1, 2007, marketable securities are classified as either held-to-maturity, held for trading, or available-for-sale (note 2).

- Held-to-maturity investments are measured at amortized cost. Losses due to impairment are included in current period net income.
- Held for trading investments are measured at fair value. All gains and losses are included in net income in the period in which they arise.
- Available-for-sale investments are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the investment is sold.

Prior to 2007, marketable securities were stated at cost and were written down to market value if it was determined that there was 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. Tenant allowances are deducted from rental revenue on a straight-line basis over the term of the tenant's lease. Revenue recognition begins on the lease commencement date.

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.

### **(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 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 is expensed immediately.

Effective January 1, 2007, commitment fees and other costs incurred in connection with debt financing are amortized using the effective interest method of amortization and presented as non-cash interest expense (note 2). Previously, these costs were 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. Revenues and expenses denominated in United States dollars are translated at the weighted average daily exchange rate for the periods being reported on. Effective January 1, 2007, the resulting net gains or losses are accumulated and included in a separate component of shareholders' equity described as Other Comprehensive Income (OCI) (note 2). Prior to 2007, the net gain or losses were accumulated in a separate component of shareholders' equity described as the cumulative currency translation adjustment.

#### **(m) Derivative Financial Instruments**

Derivative financial instruments are utilized by the Company in the management of its foreign currency and interest rate exposures. Derivative instruments are 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 recognized in net income, except for derivatives that are designated as cash flow hedges. The fair value changes for the effective portion of such cash flow hedges are recognized in OCI. The Company has no significant derivative instruments other than its interest rate swaps. 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.

Interest rate swaps are recorded in the balance sheet at fair value. The change in fair value with respect to the swaps that have been designated is recorded in other comprehensive income. The change in fair value with respect to swaps that are not designated as hedges as well as the ineffective portion of designated hedges, are recorded in net income with interest and other income. Previously, only the fair value of undesignated or ineffective hedges was recorded in net income. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

- (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 unless there are conversions.

### **(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, assessing the allowance for doubtful accounts on trade accounts receivable and straight-line rent, the determination of the fair value of stock-based compensation and determining fair values of financial instruments.

## **2. CHANGES IN ACCOUNTING POLICIES**

### **(a) Current Accounting Policy Changes**

Effective January 1, 2007, the Company adopted several new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). The standards are applied on a retroactive basis with no required restatement of prior periods.

#### *(i) Comprehensive income – CICA Section 1530*

Comprehensive income consists of net income and other comprehensive income ("OCI"). OCI includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts 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 now include consolidated statements of comprehensive income. The cumulative amount of other comprehensive income is presented as a new category in the consolidated statements of shareholders' equity. The cumulative currency translation account has been reclassified to accumulated other comprehensive income.

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

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 liabilities classified as held-for-trading are required to be measured at fair value with gains and losses recognized in net income. The Company has classified certain of its marketable securities as held-for-trading. None of the Company's liabilities are currently classified as held-for-trading. Previously, all of the Company's marketable securities were recorded at cost.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in OCI. Certain of the Company's marketable securities are classified as available-for-sale.

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. This classification applies to the majority of the Company's financial assets and liabilities including loans, mortgages, amounts receivable, accounts payable, loans and debentures. The Company now applies the effective interest method of amortization for any transaction costs or fees, premiums or discounts to mortgages, loans and debentures and presents the amortization as non-cash interest expense. Mortgages, loans and debentures are now presented net of all issue costs, premiums and discounts. Previously, these costs were included in other assets and amortized on a straight-line basis.

The classifications above do not apply to the Company's investment in Equity One, Inc., which continues to be accounted for using the equity method.

Derivative instruments are 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 cash flow hedges. The fair value changes for the effective portion of such cash flow hedges are recognized in OCI. The Company has no significant derivative instruments other than its interest rate swaps.

The standard specifically excludes CICA Section 3065, Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract.

*(iii) Hedges – CICA Section 3865*

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.

As at the date of adoption of Section 3865, the Company had interest rate swaps which are now recorded in the balance sheet at fair value. The change in fair value with respect to the swaps that have been designated is recorded in other comprehensive income. The change in fair value with respect to swaps that are not designated as hedges under the section, as well as the ineffective portion of designated hedges, are recorded in net income with interest and other income. Previously, only the fair value of undesignated or ineffective hedges was recorded in net income.

*(iv) Equity – CICA Section 3251*

This new section establishes standards for the presentation of equity and changes in equity during the reporting period. The following components of equity are now presented separately:

- 1) retained earnings or deficit;
- 2) accumulated other comprehensive income;
- 3) the total of (1) and (2);
- 4) contributed surplus;
- 5) share capital.

*(v) Accounting Changes – CICA Section 1506*

The new standard sets out the conditions that must be met for a change in accounting policy to be applied in accordance with GAAP and sets out how such changes should be applied. As a result of this new standard, the Company has included additional disclosure in Note 2(b) of the financial statements addressing the impact of future accounting policy changes.

*(vi) Effect of adopting CICA Sections 1530, 3855, 3865, 3251 and 1506*

Shareholders' equity was increased by \$0.9 million on January 1, 2007 as a result of adopting these standards. Net income for the year ended December 31, 2007 increased by \$144,000 as a result of applying the effective interest method and recognizing unrealized gains on marketable securities held for trading.

### **(b) Future Accounting Policy Changes**

*(i) Capital Disclosures*

On December 1, 2006, the CICA issued Handbook Section 1535 Capital Disclosures. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new standard will be effective for the Company in the first quarter of 2008.

*(ii) Financial Instruments – Disclosures and Presentation*

On December 1, 2006, the CICA issued two new accounting standards: Handbook Section 3862 Financial Instruments – Disclosures, and Handbook Section 3863 Financial Instruments – Presentation. The new Sections 3862 and 3863 replace Handbook Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements, and carrying forward, unchanged, existing presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These new standards will be effective for the Company in the first quarter of 2008.

*(iii) Goodwill and Intangible Assets*

On January 31, 2008, the CICA issued a new accounting standard: Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 will replace Handbook Section 3062 Goodwill and Other Intangible Assets and Handbook Section 3450 Research and Development Costs. This new standard will be effective for the Company in the first quarter of 2009.

The Company is currently in the process of evaluating the potential impact of these new standards to the consolidated financial statements.

### 3. SHOPPING CENTRES

<i>(thousands of dollars)</i>	2007	2006
Land	\$ 695,025	\$ 613,367
Buildings and improvements	2,222,071	1,958,536
	<b>2,917,096</b>	2,571,903
Accumulated amortization	(199,018)	(148,102)
	<b>\$ 2,718,078</b>	\$ 2,423,801

The Company acquired interests in six (2006 – 25) income-producing shopping centres as follows:

<i>(thousands of dollars)</i>	2007	2006
Allocation of purchase price:		
Shopping centres	\$ 229,824	\$ 434,056
Shopping centres under development	8,040	9,074
Deferred costs	6,872	18,619
Intangible assets	12,745	13,661
Intangible liabilities	(1,921)	(8,378)
Total purchase price, including acquisition costs	255,560	467,032
Less mortgages assumed on acquisition and vendor-take-back mortgages	(24,602)	(102,767)
Difference between principal amount and fair value of assumed mortgage financing	(404)	(2,936)
Net cash outlay for acquisitions	<b>\$ 230,554</b>	\$ 361,329
The acquisitions were funded as follows:		
Cash and credit facilities	\$ 230,554	\$ 361,329
Proceeds from mortgages	—	—
Net cash outlay for acquisitions	<b>\$ 230,554</b>	\$ 361,329

During the year ended December 31, 2007, the Company sold a shopping centre for proceeds of \$6.4 million resulting in a gain of \$0.3 million.

### 4. LAND AND SHOPPING CENTRES UNDER DEVELOPMENT

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

<i>(thousands of dollars)</i>	2007	2006
Purchase price of land and shopping centres acquired for development or redevelopment	\$ 65,562	\$ 37,177
Less mortgages assumed on acquisition and vendor-take-back mortgages	—	(2,950)
Net cash outlay for acquisitions, funded through cash and credit facilities	<b>\$ 65,562</b>	\$ 34,227

During the year ended December 31, 2007, the Company completed developments with a book value of \$149.1 million (2006 – \$107.4 million) that were transferred to shopping centres.

In addition, during the year ended December 31, 2007, the Company transferred shopping centres with a book value of \$38.2 million (2006 – \$22.3 million) to land and shopping centres under development.

Interest expense and incremental direct internal costs capitalized to development properties during the year ended December 31, 2007 totalled \$15.6 million (2006 – \$8.8 million) and \$6.7 million (2006 – \$3.4 million), respectively. The costs to complete projects currently under development are estimated at \$158.3 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

### 5. DEFERRED COSTS

<i>(thousands of dollars)</i>	2007		
	Cost	Accumulated Amortization	Net Book Value
Deferred leasing costs and tenant improvements incurred through leasing activities	\$ 66,760	\$ 21,385	\$ 45,375
Tenant improvement costs recorded on acquisition of shopping centres	47,914	13,683	34,231
	\$ 114,674	\$ 35,068	\$ 79,606

<i>(thousands of dollars)</i>	2006		
	Cost	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

Incremental direct internal costs related to leasing activities totalling \$2.4 million (2006 – \$3.0 million) were capitalized during the year ended December 31, 2007.

### 6. INTANGIBLE ASSETS AND LIABILITIES

<i>(thousands of dollars)</i>	2007		
	Cost	Accumulated Amortization	Net Book Value
<b>Intangible Assets</b>			
Lease origination costs	\$ 43,558	\$ 14,447	\$ 29,111
Above-market in-place leases	2,237	1,022	1,215
Tenant relationships	7,063	1,451	5,612
	\$ 52,858	\$ 16,920	\$ 35,938
<b>Intangible Liabilities</b>			
Below-market in-place leases	\$ 23,204	\$ 5,409	\$ 17,795

<i>(thousands of dollars)</i>	2006		
	Cost	Accumulated Amortization	Net Book Value
<b>Intangible Assets</b>			
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
<b>Intangible Liabilities</b>			
Below-market in-place leases	\$ 22,001	\$ 3,548	\$ 18,453

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>	2007	2006
Investment in Equity One, Inc., beginning of year	\$ 228,665	\$ 211,830
Other comprehensive loss of Equity One, Inc. opening adjustment	(1,669)	—
Equity income	14,375	32,696
Less dividends received	(17,617)	(33,265)
Purchase of Equity One, Inc., common shares (a)	2,254	16,936
Other comprehensive loss of Equity One, Inc.	(320)	—
Cumulative currency effect	(34,152)	468
Investment in Equity One, Inc., end of year (b)	\$ 191,536	\$ 228,665
Ownership interest in Equity One at December 31	19%	19%

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 2007, the Company’s U.S. subsidiaries acquired 80,000 (2006 – 562,700) common shares of Equity One at an average price of US\$26.43 (2006 – US\$25.83) per share.
- (b) The closing price on the NYSE of Equity One’s common shares at December 31, 2007 was US\$23.03 (2006 – US\$26.66) per share. The book value per share of the Company’s investment in Equity One at December 31, 2007 was US\$13.82 (2006 – US\$14.11). At December 31, 2007, 73.3 million (2006 – 72.7 million) shares of Equity One were outstanding, of which 14.0 million (2006 – 13.9 million) shares were held by the Company.

## 8. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS

<i>(thousands of dollars)</i>	2007	2006
Loans and mortgages receivable from development partners (a)	\$ 9,459	\$ 11,031
Real estate marketable securities	2,130	13,025
	\$ 11,589	\$ 24,056

- (a) The Company has funded its partners’ share of certain development activities. The loans bear interest at an average rate of 7.9% (2006 – 8.4%) 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.

The fair values of the Company’s loans, mortgages receivable and marketable securities approximate carrying values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

### 9. OTHER ASSETS

<i>(thousands of dollars)</i>	2007	2006
Deferred financing, issue and interest rate hedge costs (net of accumulated amortization of \$549 (2006 – \$7,066)) (a)	\$ 1,643	\$ 16,701
Prepaid expenses and deposits related to property operations	21,719	19,838
Deposits and costs on properties under option	3,825	6,176
Fixtures, equipment and computer hardware and software (net of accumulated amortization of \$1,984 (2006 – \$1,004))	5,208	4,414
	<b>\$ 32,395</b>	<b>\$ 47,129</b>

(a) Effective January 1, 2007, mortgages, term loans and debentures are presented net of deferred financing and issue costs other than deferred financing costs on credit facilities (note 2).

### 10. AMOUNTS RECEIVABLE

<i>(thousands of dollars)</i>	2007	2006
Trade receivables	\$ 13,275	\$ 11,962
Rent revenue recognized on a straight-line basis	21,463	14,998
Corporate and other amounts receivable	1,270	1,110
	<b>\$ 36,008</b>	<b>\$ 28,070</b>

### 11. MORTGAGES, LOANS AND CREDIT FACILITIES

<i>(thousands of dollars)</i>	2007		
	Canada	U.S.	Total
Fixed rate mortgages	\$ 1,145,828	\$ —	\$ 1,145,828
Secured term loans			
Floating rate hedged (with interest rate swaps)	—	39,536	39,536
Floating rate	—	88,440	88,440
Unsecured revolving credit facilities			
Floating rate	178,475	18,835	197,310
	<b>\$ 1,324,303</b>	<b>\$ 146,811</b>	<b>\$ 1,471,114</b>

Effective January 1, 2007, mortgages and term loans are presented net of deferred financing costs (note 2).

<i>(thousands of dollars)</i>	2006		
	Canada	U.S.	Total
Fixed rate mortgages	\$ 1,190,438	\$ —	\$ 1,190,438
Secured term loans			
Floating rate hedged (with interest rate swaps)	—	52,443	52,443
Floating rate	—	110,276	110,276
Secured revolving credit facilities			
Floating rate	35,493	—	35,493
	<b>\$ 1,225,931</b>	<b>\$ 162,719</b>	<b>\$ 1,388,650</b>

Mortgages and term loans are secured by shopping centres and the investment in Equity One.



At December 31, 2007, the Company had \$128.0 million of undrawn credit facilities available for acquisitions, development, and general corporate purposes.

Of the net book value of real estate assets of \$3.1 billion as at December 31, 2007, approximately \$1.8 billion has been pledged as security under mortgages and the credit facilities. Real estate assets consist of shopping centres, land and shopping centres under development, deferred costs, intangible assets and intangible liabilities.

### **Canada**

Fixed rate financing bears interest at a weighted coupon interest rate of 6.32% at December 31, 2007 (2006 – 6.36%) and matures in years ranging from 2008 to 2025. The weighted average effective interest rate on fixed rate financing at December 31, 2007 is 6.14% (2006 – 6.17%). Floating rate financing bears interest at floating rates determined by reference to Canadian prime lenders or bankers' acceptance rates ranging from 5.50% to 6.10% and matures in 2010.

Principal repayments of Canadian dollar mortgages and credit facilities outstanding as at December 31, 2007 are as follows:

<i>(thousands of dollars)</i>	Principal Instalment Payments	Balance Maturing	Total	Weighted Coupon Interest Rate
2008	\$ 30,358	\$ 65,814	\$ 96,172	5.97%
2009	29,052	51,541	80,593	6.13%
2010	28,229	266,433	294,662	5.99%
2011	26,794	62,892	89,686	7.14%
2012	24,609	108,785	133,394	6.96%
Thereafter	65,582	563,181	628,763	6.11%
	204,624	1,118,646	1,323,270	6.22%
Add: unamortized deferred financing costs and premiums and discounts, net (note 2)	—	—	1,033	—
	\$ 204,624	\$ 1,118,646	\$ 1,324,303	—

On March 5, 2007, the Company completed a \$250 million three-year unsecured revolving credit facility syndicated with six financial institutions. On October 4, 2007, the Company completed a \$100 million increase on its unsecured revolving credit facility syndicated with seven financial institutions bringing the total availability to \$350 million, with a term to March 2010. The Company's existing secured credit facilities were cancelled or not renewed by the Company and as a result, \$0.5 million of unamortized deferred financing costs were recorded as a loss on settlement of debt.

### **United States**

Floating rate financing hedged (with interest rate swaps) is comprised of LIBOR swap agreements on a notional US\$40 million (2006 – US\$45 million) at an average fixed rate of 4.55% (2006 – 4.37%) plus applicable spreads and matures by 2017. Floating rate financing of \$65.9 million (US\$66.5 million) bears interest at the LIBOR plus 145 basis points and matures in 2010. Floating rate financing of \$13.8 million (US\$13.9 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 U.S. prime lenders ranging from 5.25% to 8.10%. In 2006, floating rate financing of \$78.7 million (US\$67.5 million) bore interest at LIBOR plus 145 basis points and the remainder of the floating rate debt bore interest at rates determined by reference to bankers' acceptance rates or U.S. prime lenders ranging from 6.25% to 8.75%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

Principal repayments of U.S. dollar financing outstanding as at December 31, 2007 are due as follows:

<i>(thousands of dollars)</i>	Principal Instalment Payments	Balance Maturing	Total
2008	\$ 6,691	\$ 9,026	\$ 15,717
2009	6,691	—	6,691
2010	3,717	109,539	113,256
2011	186	11,338	11,524
	17,285	129,903	147,188
Add: unamortized deferred financing costs and premiums and discounts, net (note 2)	—	—	(377)
	\$ 17,285	\$ 129,903	\$ 146,811

At December 31, 2007, the fair value of the Company's mortgages, loans and credit facilities was approximately \$1,493 million (2006 – \$1,463 million).

### 12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

<i>(thousands of dollars)</i>	2007	2006
Trade payables and accruals	\$ 55,332	\$ 50,314
Accrued interest	17,836	14,798
Dividends payable	25,498	23,342
Interest rate swaps at fair value	695	389
Tenant deposits	8,333	6,470
Differences between principal amounts and fair values of assumed mortgages	—	8,573
Other liabilities	2,312	2,259
	\$ 110,006	\$ 106,145

Effective January 1, 2007, the differences between principal amounts and fair values of assumed mortgages are presented with mortgages, loans and credit facilities (note 2).

### 13. SENIOR UNSECURED DEBENTURES

<i>(thousands of dollars)</i>			2007	2006			
Series	Date of Issue	Maturity Date	Interest Rate		Cash Proceeds		
			Coupon	Effective			
A	June 21, 2005	June 21, 2012	\$ 99,980	5.08%	5.29%	\$ 99,096	\$ 100,000
B	March 30, 2006	March 30, 2011	\$ 99,830	5.25%	5.51%	99,227	99,851
C	August 1, 2006	December 1, 2011	\$ 99,980	5.49%	5.67%	99,388	99,981
D	September 18, 2006	April 1, 2013	\$ 99,980	5.34%	5.51%	99,240	99,981
E	January 31, 2007	January 31, 2014	\$ 99,977	5.36%	5.52%	99,224	—
F	April 5, 2007	October 30, 2014	\$ 100,002	5.32%	5.47%	99,201	—
				5.31%	5.50%	\$ 595,376	\$ 399,813

Each series was issued with a principal amount of \$100 million, with interest payable semi-annually.

The fair value of the senior unsecured debentures is approximately \$580 million at December 31, 2007 (2006 – \$402 million).

## 14. CONVERTIBLE DEBENTURES

<i>(thousands of dollars)</i>				2007			2006		
Date of Issue	Maturity Date	Interest Rate		Principal	Liability	Equity	Principal	Liability	Equity
		Coupon	Effective						
December 19, 2005	September 30, 2017	5.50%	6.45%	\$ 83,000	\$ 77,369	\$ 2,503	\$ 100,000	\$ 97,176	\$ 3,015
November 30, 2006	September 30, 2017	5.50%	6.39%	100,000	93,593	6,015	100,000	95,013	6,015
June 29, 2007	September 30, 2017	5.50%	6.61%	50,000	46,068	7,387	—	—	—
				<b>\$ 233,000</b>	<b>\$ 217,030</b>	<b>\$ 15,905</b>	\$ 200,000	\$ 192,189	\$ 9,030

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 on the same terms as the other investors. On June 29, 2007, the Company issued, via private placement, an additional \$50 million principal of the 5.50% convertible debentures for total proceeds of \$53.5 million. \$49 million of the principal amount of these debentures were issued to subsidiaries of the Company's major shareholder, Gazit. 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.

During the second quarter of 2007, \$12 million principal of the convertible debentures were converted at the holder's option into 444,443 common shares.

On December 15, 2007, an additional \$5 million principal of the convertible debentures were converted at the holder's option into 185,185 common shares.

In 2007, 467,057 (2006 – 178,373) common shares were issued for \$12.0 million (2006 – \$4.3 million) to pay interest to holders of convertible debentures.

As at December 31, 2007, subsidiaries of the Company's major shareholder, Gazit-Globe ("Gazit"), owned \$118.7 million (2006 – \$66.4 million) principal amount of the outstanding convertible debentures.

Based on TSX closing bid price, as at December 31, 2007, the market value of the principal amount of the convertible debentures was \$221 million (2006 – \$210 million).

# 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>
<b>Issued and outstanding at December 31, 2005</b>	<b>70,645,834</b>	<b>\$ 1,022,701</b>
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)
<b>Issued and outstanding at December 31, 2006</b>	<b>75,297,908</b>	<b>1,128,926</b>
Payment of interest on convertible debentures (note 14)	467,057	12,048
Conversion of convertible debentures (note 14)	629,628	16,325
Exercise of warrants (c)	119,291	1,503
Exercise of deferred share units (e)	7,789	162
Exercise of options (d)	192,998	3,385
Private placement of shares (b)	73,383	1,292
Dividends reinvested in common shares (f)	2,893,875	74,962
Issue costs	—	(317)
<b>Issued and outstanding at December 31, 2007</b>	<b>79,681,929</b>	<b>\$ 1,238,286</b>

### (b) Issuance of Common Shares

On December 14, 2007, the Company issued 73,383 shares to two members of the Company's management at a price of \$24.89 per share for gross proceeds of \$1.8 million.

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.

### (c) Warrants

During 2007, a total of 119,291 (2006 – 332,890) share purchase warrants were exercised at \$11.80 per share resulting in proceeds to the Company of \$1.4 million (2006 – \$3.9 million). The equity component of the warrants exercised totalling \$0.1 million (2006 – \$0.2 million) was transferred to share capital.

At December 31, 2007, there were 175,913 outstanding share purchase warrants (2006 – 295,204 ) 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

As of December 31, 2007, the Company is authorized to grant up to 7,025,000 (2006 – 3,625,000) common share options to the employees, officers and directors of the Company and third-party service providers. As of December 31, 2007, 2,983,453 (2006 – 834,572) common share options are available to be granted. Options granted by the Company generally expire ten years from the date of grant and vest over three to five years. The outstanding options have exercise prices ranging from \$12.42 to \$27.57. In 2007, \$2.3 million (2006 – \$1.0 million) had been recorded as an expense due to the vesting of options granted after January 1, 2003.

	2007		2006	
	Common Share Options	Weighted Average Exercise Price	Common Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,568,968	\$ 20.58	1,145,105	\$ 17.46
Granted	1,322,052	\$ 27.57	620,682	\$ 25.01
Exercised	(192,998)	\$ 16.66	(147,365)	\$ 14.50
Cancelled	(70,933)	\$ 24.81	(49,454)	\$ 21.99
Outstanding, end of year	2,627,089	\$ 24.27	1,568,968	\$ 20.58
Options vested, end of year	806,215	\$ 19.19	580,626	\$ 16.36
Weighted average remaining life (years)	8.3		8.2	

During the year ended December 31, 2007, the Company granted 1,322,052 options with a strike price of \$27.57, which had an approximate fair value of \$4.1 million at the time of issue. The options granted include 750,000 options granted to the President and Chief Executive Officer that vest one-fifth on each of the five anniversary dates following the grant date. The remaining options were granted to employees and vest one-third on each of the three anniversary dates following the grant date.

The fair value associated with the options issued was calculated using the Binomial Model for option valuation, assuming an average volatility of 13% 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 grant date).

### (e) Share Unit Plans

The Company's share unit plans include a Directors Deferred Share Unit Plan ("DSUP"), an Employee Restricted Share Unit Plan ("Employee RSU Plan") and a Chief Executive Officer Restricted Share Unit Plan ("CEO RSU Plan"). A total of 1,250,000 common shares have been reserved for issuance under these plans.

As at December 31, 2007, 77,569 units (2006 – 64,240 units) have been granted under the DSUP, and \$0.4 million (2006 – \$0.4 million) has been recorded as an expense.

During 2007, 86,000 units (2006 – 76,000 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 14,169 (2006 – 11,813), and 60,000 units (2006 – 70,000) were settled. At December 31, 2007, 242,725 units (2006 – 215,270 units) were outstanding under RSU plans. The Company recorded an expense of \$1.6 million in 2007 (2006 – \$1.2 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's Dividend Reinvestment Plan ("DRIP") allows shareholders who hold at least 500 common shares 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.

## 16. INTEREST AND OTHER INCOME

<i>(thousands of dollars)</i>	2007	2006
Realized gains on sale of marketable securities	\$ 2,504	\$ 4,221
Interest, dividend and distribution income from marketable securities and cash investments	1,768	1,335
Gains on land and property sales	323	137
Realized gains on interest rate swaps not designated as hedges	161	—
Unrealized gains (losses) on interest rate swaps not designated as hedges	643	(389)
Interest income from development loans	658	683
Income from non-recourse cash flow participation loans	—	538
Other (expense) income	(24)	392
	<b>\$ 6,033</b>	<b>\$ 6,917</b>

## 17. INTEREST

<i>(thousands of dollars)</i>	2007	2006
Mortgage, loans and credit facilities	\$ 70,807	\$ 74,678
Senior unsecured debentures	30,071	12,935
Convertible debentures	12,685	6,196
Other non-cash interest expense (note 2)	2,480	—
Interest expense	116,043	93,809
Convertible debenture interest paid in common shares (note 14)	(12,048)	(4,295)
Change in accrued interest	(2,362)	(6,078)
Implicit interest rate in excess of coupon rate on convertible and senior unsecured debentures	(696)	(242)
Interest paid in excess of implicit interest on assumed mortgages	1,890	2,323
Other non-cash interest expense	(2,480)	—
Interest capitalized to land and shopping centres under development	15,601	8,776
Cash interest paid	<b>\$ 115,948</b>	<b>\$ 94,293</b>

Effective January 1, 2007, amortization of financing costs incurred for mortgages, loans and debentures is presented as non-cash interest expense (note 2).

## 18. 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>	2007	2006
Provision for income taxes on income at the combined Canadian federal and provincial income tax rate of 34.4% (2006 – 33.4%)	\$ 14,784	\$ 21,304
Increase (decrease) in the provision for income taxes due to the following items:		
U.S. operations	(40)	(3,240)
Non-deductible interest expense	240	81
Change in future income tax rate	(5,250)	(573)
Expenses not deductible for tax purposes	1,697	990
Other items	1,171	(814)
<b>Income taxes</b>	<b>\$ 12,602</b>	<b>\$ 17,748</b>

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

<i>(thousands of dollars)</i>	2007	2006
Losses available for carry-forward	\$ 7,890	\$ 16,613
Canadian and U.S. minimum tax credits	761	742
Other	1,080	—
	<b>\$ 9,731</b>	<b>\$ 17,355</b>

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

<i>(thousands of dollars)</i>	2007	2006
Investments	\$ 13,880	\$ 13,880
Shopping centres	25,178	24,369
Other	7,699	5,787
	<b>\$ 46,757</b>	<b>\$ 44,036</b>

At December 31, 2007, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately \$29.0 million (2006 – \$51.0 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, 2008 and December 31, 2027.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

## 19. PER SHARE CALCULATIONS

The following table sets forth the computation of per share amounts:

<i>(thousands of dollars, except per share amounts)</i>	2007		2006
Basic and diluted net income available to common shareholders	\$	<b>30,353</b>	\$ 45,959
Denominator			
Weighted average shares outstanding for basic per share amounts:		<b>77,996,827</b>	73,773,554
Outstanding warrants		<b>132,477</b>	251,070
Outstanding options		<b>298,279</b>	297,200
Denominator for diluted net income available to common shareholders		<b>78,427,583</b>	74,321,824
Basic and diluted earnings per share	\$	<b>0.39</b>	\$ 0.62

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

	Exercise Price	Number of shares if converted or exercised	
		2007	2006
Common share options	\$ 27.57	<b>1,300,352</b>	—
Convertible debentures – 5.5%	\$ 27.00	<b>8,629,630</b>	7,407,406
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

## 20. RISK MANAGEMENT

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

### (a) Interest Rate Risk

The Company attempts to structure its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate and other credit market fluctuations. A portion of the Company's mortgages, loans 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 negative value of approximately \$0.7 million (2006 – positive value of \$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. A tenant's success over the term of their lease and their ability to fulfill their lease obligations, is subject to many factors. There can be no assurance that a tenant will be able to fulfill all of its existing commitments and leases up to their expiry date.



**(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 loans and 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 loans and 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, and a weakening of the Canadian dollar would increase the carrying value of the net assets in the United States.

**(d) Fair Values of Financial Instruments**

The fair values of the Company's net working capital items approximate their recorded values at December 31, 2007 and 2006 due to their short-term nature. The fair values of the Company's other financial assets and liabilities are disclosed in notes 11, 13 and 14.

**(e) Liquidity Risk**

Real estate investments are relatively illiquid. This will tend to limit our ability to sell components of our portfolio promptly in response to changing economic or investment conditions. If we were required to quickly liquidate our assets, there is a risk that we would realize sale proceeds of less than the current book value of our real estate investments.

**21. SUPPLEMENTAL CASH FLOW INFORMATION**

**(a) Items not affecting cash from operating activities**

<i>(thousands of dollars)</i>	2007	2006
Amortization	\$ 79,828	\$ 68,441
Amortization of above- and below-market leases	(2,122)	(1,643)
Rent revenue recognized on a straight-line basis	(6,753)	(5,839)
Gains on land and property sales	(323)	(137)
Realized gain on sale of marketable securities (note 16)	(2,504)	(4,221)
Loss on settlement of debt (note 11)	483	—
Non-cash compensation expense	4,295	2,543
Interest paid in excess of coupon interest on assumed mortgages	(1,890)	(2,323)
Debenture interest expense in excess of coupon	696	242
Convertible debenture interest paid in common shares (note 14)	12,048	4,295
Other non-cash interest expense (note 17)	2,480	—
Equity income from Equity One, Inc. (note 7)	(14,375)	(32,696)
Future income taxes	10,930	13,593
Unrealized (gains) losses on interest rate swaps not designated as hedges	(643)	389
	<b>\$ 82,150</b>	<b>\$ 42,644</b>

**(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>	2007	2006
Amounts receivable	\$ (1,600)	\$ (4,936)
Prepaid expenses	(2,356)	(1,715)
Accounts payable and accrued liabilities	8,716	11,249
Tenant security and other deposits	2,331	295
Other working capital changes	1,100	(4,062)
	<b>\$ 8,191</b>	<b>\$ 831</b>

**(c) Changes in loans, mortgages and other real estate assets**

<i>(thousands of dollars)</i>	2007	2006
Decrease in loans and mortgages receivable	\$ 1,538	\$ 3,560
Investment in marketable securities	(32,556)	(30,627)
Proceeds from disposition of marketable securities	45,031	33,635
	<b>\$ 14,013</b>	<b>\$ 6,568</b>

**(d) Cash and cash equivalents**

<i>(thousands of dollars)</i>	2007	2006
Cash	\$ 6,458	\$ 6,315
Term deposits	3,993	495
	<b>\$ 10,451</b>	<b>\$ 6,810</b>

**(e) Interest and income taxes**

<i>(thousands of dollars)</i>	2007		2006	
Cash income taxes paid	\$	787	\$	4,051
Cash interest paid (note 17)	\$	115,948	\$	94,293

**22. 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. Income by geographic segment for the year ended December 31, 2007, is summarized as follows:

<i>(thousands of dollars)</i>	Canada		U.S.		Total	
Property rental revenue	\$	376,891	\$	—	\$	376,891
Property operating costs		134,446		—		134,446
Income before the undernoted items		242,445		—		242,445
Equity income from Equity One, Inc.		—		14,375		14,375
Interest and other income		5,513		520		6,033
Interest expense		106,376		9,667		116,043
Corporate expenses		22,751		793		23,544
Loss on settlement of debt		483		—		483
Income before amortization		118,348		4,435		122,783
Amortization		79,777		51		79,828
Income before income taxes	\$	38,571	\$	4,384	\$	42,955

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

**23. PROPORTIONATE CONSOLIDATION**

The Company is a participant in 15 (2006 – 15) 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 33% 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>	<b>2007</b>	2006
Assets	<b>\$ 163,619</b>	\$ 168,107
Liabilities	<b>\$ 92,663</b>	\$ 105,470
Revenues	<b>\$ 26,192</b>	\$ 25,726
Expenses	<b>19,955</b>	20,770
Net income	<b>\$ 6,237</b>	\$ 4,956
Cash flows provided by (used in):		
Operating activities	<b>\$ 10,011</b>	\$ 8,467
Investing activities	<b>\$ 2,083</b>	\$ (8,454)
Financing activities	<b>\$ (10,508)</b>	\$ (2,415)

Cash and cash equivalents held pursuant to terms of joint venture agreements amount to \$4.0 million (2006 – \$2.4 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 (note 24 (c)).

**24. 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, 2007, 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 \$46.7 million (2006 – \$48.2 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 \$11.9 million (2006 – \$5.5 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 \$18.7 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.

## **25. 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 2007 was \$976,000 (2006 – \$1,033,000) which primarily consists of appraisal and accounting costs related to International Financial Reporting Standards. At December 31, 2007, \$26,300 due from Gazit was included in amounts receivable (2006 – \$442,000) and collected subsequent to year end.

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

## **26. COMPARATIVE AMOUNTS**

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

# SHAREHOLDER INFORMATION

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Richmond, British Columbia V7C 5V2  
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## ANNUAL SHAREHOLDERS' MEETING

May 22, 2008  
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

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Toronto, Ontario M5J 2Y1  
(Toll Free) 1.800.564-6253

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