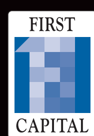
Essentially Urban.

ANNUAL REPORT 2008

Corporate Profile



First Capital Realty is Canada's leading owner, developer and operator of supermarket and drug store-anchored neighbourhood and community shopping centres, located in growing metropolitan areas. The Company currently owns interests in 172 properties, including five under development, totalling approximately 20.1 million square feet of gross leasable area and six land sites in the planning stage for future retail development. In addition, the Company owns 14.1 million shares (approximately 18.5%) of Equity One (NYSE:EQY), one of the largest shopping centre REITs in the southern United States. Including its investments in Equity One, the Company has interest in 328 properties totalling approximately 36.1 million square feet of gross leasable area. First Capital Realty has an enterprise value of over $4 billion.

Contents

Management's Discussion & Analysis (MD&A)

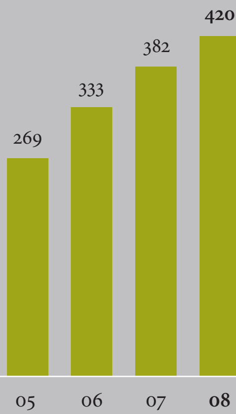
17 *Introduction*
17 *Business Overview and Strategy*
22 *Summary Consolidated Information and Highlights*
24 *Business and Operations Review*
35 *Results of Operations*
44 *Capital Structure and Liquidity*
53 *International Financial Reporting Standards ("IFRS")*
54 *Quarterly Financial Information*
55 *Fourth Quarter 2008 Operations and Results*
59 *Events Subsequent to December 31, 2008*
60 *Outlook*
61 *Summary of Significant Accounting Estimates and Policies*
63 *Summary of Changes to Significant Accounting Policies*
64 *Controls and Procedures*
65 *Risks and Uncertainties*

Consolidated Financial Statements

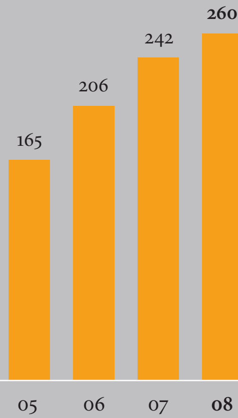
76 *Management's Responsibility*
77 *Auditors' Report*
78 *Consolidated Balance Sheets*
79 *Consolidated Statements of Earnings*
80 *Consolidated Statements of Comprehensive Income*
81 *Consolidated Statements of Shareholders' Equity*
83 *Consolidated Statements of Cash Flows*
84 *Notes to the Consolidated Financial Statements*

A growth strategy applied to a stable business

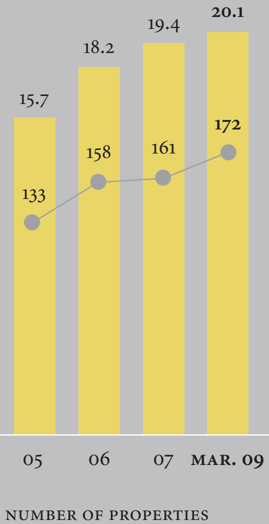
Revenues
(in millions)



Net Operating Income
(in millions)



Gross Leasable Area
(millions of sq. ft.)



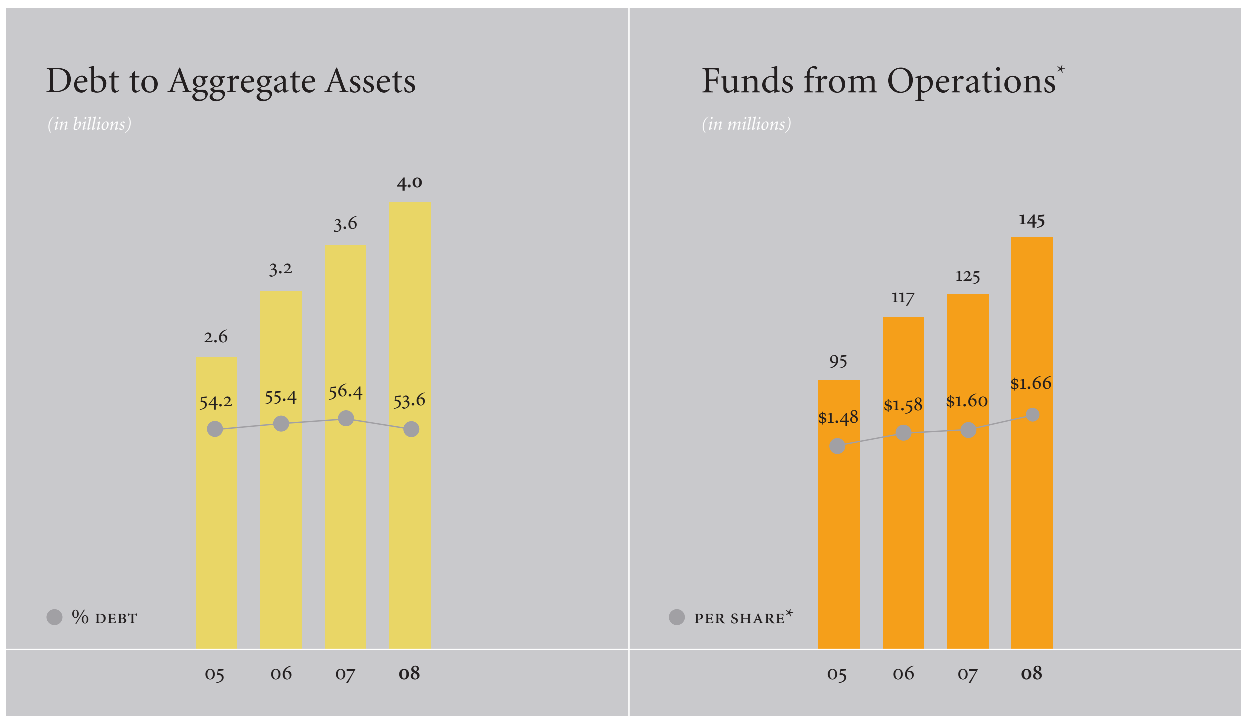
13 Years of Dividend Increases
(per share)

Take Stock

At First Capital Realty we have always taken a highly disciplined approach to growing our business. Our primary strategy is the creation of shareholder value over the long term by generating sustainable cash flow and capital appreciation from our shopping centre portfolio. We measure achievement of our strategy by absolute and accretive growth in FFO and AFFO per common share, while maintaining a strong balance sheet.

Furthermore, we will look to provide continual moderate dividend increases to shareholders while maintaining a conservative payout ratio.

We have a committed and entrepreneurial management team that is aligned with shareholders, and we continue to work hard on increasing the value of First Capital Realty.



*As defined in the MD&A.

Opportunity is in store.

Across Canada's urban landscape First Capital Realty builds value on the simple reality that shopping centres are a part of our neighbourhoods. Convenient access to high quality shopping amenities adds to our quality of life. They create a positive impact on our lifestyles. We build shopping centres for Canada's cities, anchored by the stores people rely on for their day-to-day routines. For their groceries. For their pharmaceutical needs. For the extras. For the essentials. We're there.

Urban
Plan.
People shop
where they live.

Defining the urban landscape.

A three-pronged approach.

Acquisition Synergies

Buying the right properties is the first step in creating future growth. The cycle is simple: Choice locations provide for strong long-term returns, which increasingly positions the Company as a market influencer, which creates synergies for growing leasing and operations, which creates more opportunities for future acquisitions. Following this model, we have purchased or developed 135 properties since 2000, bringing our total to 172. It all starts with an ability to see the potential in a property. And that comes from understanding the relationship between what can be offered to whom, and on what scale. People need to shop. And they like to shop where they live.

Proactive Management

In a bricks and mortar business it would be easy to see things simply as they are. We see the value in looking beyond. Beyond current usage. Beyond current boundaries. Beyond current structures and standards. Because opportunity rarely takes root within existing constraints. Retailers will always need the flexibility to respond to consumer needs, so we build the flexibility to meet our tenant's needs into our approach. We look for opportunities to expand into adjacent and nearby sites. We look for added potential in every corner of our properties. What might fit better in the space that we have? What can we do to expand it? Who would make the best use of the buildings we offer and how can we make them more attractive to triple A tenants? These are the questions that drive us. And they lead us to a company-wide culture of innovation.

Selective Development

Armed with an effective and proven business model, the final key to success is to always have the next play in mind. The urban landscape in Canada is always changing. And that means a changing retail landscape. It means value enhancements and property upgrades that provide customers with the best shopping experience. And it means knowing how to develop the right property in the right location. Because a good location is the starting point. When you have that (and we do, across Canada) it empowers you to draw the best tenants. And that's a significant advantage.

Urban Legends.

We're judged by the company we keep.

Our name alone may not draw people to our shopping centres. But it does draw our tenants. And they include some of the biggest names in the brandscape.

Urban living means breadth of choice. It means brands at your fingertips. And people who live in urban communities expect access – easy access – to the brands they want. They look for certain names and are drawn to them. Because they know them and count on them. These are the marque brands and we've got them all. They anchor our centres across the country.

At First Capital Realty we breathe location; it is a philosophy we live by. Because a great location will attract great brands. We choose our locations for their long-term growth potential, and our retail tenants come to us for the same reason.

There are several considerations and stages that lead to the mix of stores that make up the retail offering at our centres across Canada. The first is to question what the neighbourhood needs. Because not every community is the same.

So while our centres are anchored by grocery or drug stores, the story doesn't end there.

Even within the anchor stores, scale is a significant consideration. Not everyone wants a superstore in their backyard. But some do. Knowing the difference can be the dividing line between good and great community relations.

As well, not every store in a shopping centre needs to be an internationally recognized brand. We have found that having the best local barber shop or pizza guy can be a draw. As is a well-placed bench. Or bike rack. And a bike rack next to a coffee shop that is across from a grocery store and a fitness centre becomes the beginnings of a whole story. It's about a balance between community access and retail relevance.

Top 40 Tenants

1. Sobeys
2. Shoppers Drug Mart
3. Loblaws
4. Metro
5. Zellers/Home Outfitters
6. Canadian Tire
7. TD Canada Trust
8. Canada Safeway
9. Royal Bank
10. Wal-Mart
11. Bank of Nova Scotia
12. CIBC
13. Staples
14. RONA
15. London Drugs
16. LCBO
17. Goodlife Fitness Club
18. Rexall
19. Cara Operations
20. Dollarama
21. Rogers
22. Winners Merchants Inc
23. Save on Foods
24. Bank of Montreal
25. Blockbuster
26. Reitmans
27. Tim Hortons
28. SAQ
29. Future Shop
30. Starbucks
31. YUM! Brands
32. Home Depot
33. Subway
34. Forzani Group
35. Toys “R” Us (Canada) Ltd.
36. Michael’s Art Store & Crafts
37. Pharmacie Jean Coutu
38. McDonald’s
39. The Source by Circuit City
40. Uniprix

Urbanites. Minds over matters.

When a company has a clear point of view, its people can more readily coordinate their efforts. We work well together because we share a single purpose and a simple approach. And the results show.

The people at First Capital Realty share an interest in the future. Because the culture of the Company looks to the long term. We're interested in accomplishing things today, but always with a mind for what will be good for the Company tomorrow, over the next decade and in the years beyond that.

That may seem like a broad and unbelievable statement, but it fits with our overall business philosophy. Buildings have permanence. Building complexes are significant features on the landscape of a community. For shopping centres to enjoy lasting success they must be built to last and have the flexibility to change and grow.

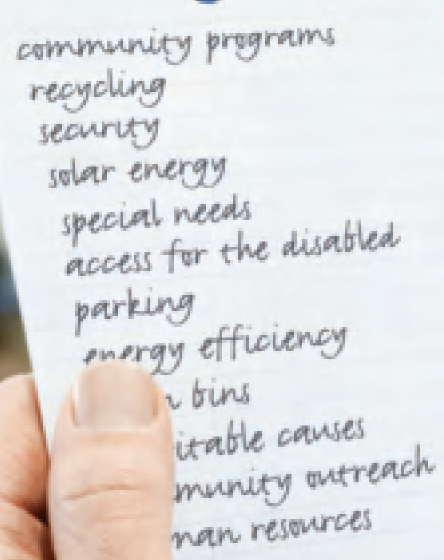
We understand that. And that strategy permeates our working culture. Every member of our team contributes the benefits of his or her own skill set. That could mean astute negotiating instincts, an innate ability to spot potential in a property, administrative excellence, a creative mind for financing, an instinct for tenant relations. These are the individual qualities that define fit within the organization. But it's a shared ability to see the big picture that holds us together.

It leads to an investment strategy that stipulates high standards in the buildings we buy or build. It creates an overall pride in our portfolio. And it leads to the good feeling we get when we see our name on a sign.

Looking to the future we almost never get to the point where we feel our work is done. There is always more. There is always better. And that's where our team spirit comes from.

Our purpose comes together when we work together to apply our strategy, individually, from every corner of the Company. And that's what we do. Every day.

Building or buying, our model for growth and success is reliable: match the mix of stores to the mix of people and we become a part of their daily routines.


community programs
recycling
security
solar energy
special needs
access for the disabled
parking
energy efficiency
bins
causes
outreach
resources

Urban Environment. Big steps towards a small footprint.

Urban living presents a variety of choices. We've made some of our own. And we're driven by a philosophy that recognizes the needs of the world around us.

It would be accurate to say that First Capital Realty is driven by good intentions. Good corporate citizenship has always been a part of who we are. Because we believe that what's good for the world can be good for business too. When you build with the future in mind, the future will treat you well. That's our philosophy.

That's why in May 2006 we committed to building all new properties to LEED standards. We see sustainable design as the clear way to the future. Why? Because energy savings and responsible use of resources mean savings over time. Because more and more tenants and the municipalities in which we build are asking us about our environmental footprint. And because the people who live in the neighbourhoods we serve will see the difference and reward us with their ongoing patronage.

Beyond LEED construction, First Capital has also committed to reporting on its corporate social responsibility initiatives through the internationally recognized Global Reporting Initiative. We feel that it is important to hold ourselves to a recognized standard for our efforts in sustainability and transparency.

As well, because it is vital to ensure the culture of responsibility permeates the whole Company, we have created a Sustainability Council, headed by Dori Segal, our CEO, and including representation from across the Company's management and operation teams.

We invite you to read and consider our separate publication which outlines our actions to-date and our Corporate Social Responsibility plan. It more fully expresses our direction in what we consider an area of strategic importance.

Over 80% of our revenue is generated by people's need for simple necessities.

Everywhere we do business, we strive to anticipate the needs of the neighbourhoods we serve.

106 Drugstores
71 Liquor Stores
131 Supermarkets
Essentials
244 Banks &
Financial Institutions
290 Fast-Food
& Coffee Shops

Strong Foundations.

Message from the President

To Our Shareholders

2008 was another growth year for First Capital Realty. Our revenues were up 8.8%, net operating income rose 7.1%, funds from operations and FFO per share increased 15.7% and 3.8% respectively, and our debt to aggregate assets at year end improved to 53.6% compared to 56.4% in 2007.

Our stock price in 2008, on the other hand, was down 21%. Are we a better Company today than a year ago? We believe that the answer is yes. Are our tenants doing well? We believe that the answer is yes, as our tenant mix is the best of the best in shopping for everyday life needs. However, our business like many others, is going through a re-evaluation process as a result of the turmoil in the global credit and financial markets. We are in a period where many governments around the world are engaging in helping many businesses and it is a reason for concern. But while our stock price did not avoid the storm, I believe it should perform well on a relative basis, and let me explain why.

The job of the Senior Management team of this Company is to grow the business, its earnings, its dividends, and to create value for the shareholders (ourselves included). However, we also have another very important responsibility that sometimes seems less rewarding in the short term, which is to deal with the risk side of the equation and to prepare First Capital for "what if" scenarios. For example:

- What if things don't go our way?
- What if our cost of capital increases and its availability deteriorates?
- What if the economy gets worse and the competition for good tenants intensifies?
- What if growth in the housing markets suddenly stops?
- What if property values stop rising and temporarily catch a downdraft?

Well guess what? These questions are a fair description of the current environment and have been on my mind every day since I stepped into this position, and if you have read my letters to shareholders over the last few years, you will know that our strategies, and how they were executed, have addressed these exact concerns.

In my 2005 Annual Report Letter to Shareholders I said: "We all must keep our eyes open and ears to the ground, day in and day out, in every market."

At First Capital Realty, we have a proactive and hands-on management style where our experienced property managers, leasing professionals, acquisition and development people, and our senior management team, are in touch ("with reality") with our tenants, the municipalities in which we operate, and with what is going on in every market we are in. We look at our potential competition, and assess the risks as well as the opportunities in each and every one of our shopping centres.

In my 2004 Annual Report Letter to Shareholders I said: "Our third principle is to maintain a solid financial position, ensuring we have the resources and the flexibility to capitalize on opportunities so we can prosper through all economic and real estate cycles."

Growing a business, and buying and developing shopping centres, is a thrilling experience, and as a well regarded company we could have probably done a lot more over the last few years given the availability of capital during these good times. But what you really have to watch is that you

never, never, borrow the "last dollar" available to you, and you must take into consideration the volatility and uncertainty in financial markets. At First Capital we always maintain a strong financial position that includes an investment grade rating, conservative leverage, a large pool of unencumbered and defensive assets and well staggered debt maturities. Our financial strategy always assumed that something could go wrong (something always does). As I said in my 2006 Annual Report Letter to Shareholders: "Unfortunately, I believe this highly favourable environment is now over."

In my 2003 Annual Report Letter to Shareholders I said: "First Capital invests in well-located shopping centres in growing urban markets that provide sustainable cash flow and long-term growth potential that will ultimately result in capital appreciation."

We have always been extremely disciplined in terms of what and where we acquire or develop. We are very picky and selective in what we would like to own, and each opportunity must meet our key criteria – an extremely well-located property in an urban trade area that enjoys positive long-term trends in demographics, and the potential to attract tenants who cater to shopping for everyday life. Today we own what we believe is the best shopping centre portfolio in Canada. It is well-positioned, well-located, and the $1 billion invested in our properties over the last six years has brought the portfolio up to the latest standards and the most current retail formats. Our green initiatives, whereby everything we build is environmentally friendly and LEED certified, are important attributes sought by today's leading retail companies.

In my 2004 Annual Report Letter to Shareholders I said: "Retail properties must be well positioned, and we will buy or develop only when we can achieve a position of influence to attract the best tenants in that particular market."

Our properties are located in Canada's seven largest urban centres, in densely populated neighbourhoods with high barriers to entry that benefit from positive demographic trends for rent increases, yet are mature enough to have defensive attributes to deal with competition and the challenging economic times we face today.

In my 2004 Annual Report Letter to Shareholders I said: "At First Capital Realty we have carefully and consistently, through acquisition and development, accumulated, mostly by one-off transactions, a quality portfolio that we believe will create long-term appreciation. To be perfectly clear, our properties are our shareholders' "private collection".

Our focus in real estate has always been to increase and maximize cash flow from our centres by acquiring well-located urban properties with lower rents than market (sometimes while paying a premium price), and by value-added redevelopment activities, all in supply constraint markets. We also focussed our attention on operating metrics like same property NOI growth, leasing spreads and occupancies, as well as financial metrics like debt coverage ratios and fixed charges ratios. These numbers do not lie nor depend on the multiples, or capitalization rates, that the market assigns to real estate, but rather on objective free cash flow measures.

My position as CEO of this Company is very fulfilling and rewarding, and I am pleased to report that we have executed our strategies very well. While we won't be asking our governments for help, this is a time when the Senior Management of this Company, myself included, will use every bit of talent, vision and hard work (including lack of sleep) to lead our Company out of this recession and to take advantage of our market position to capitalize on opportunities that will come our way so that at the end of it we will become a better and stronger Company. They say that whatever does not kill you will make you stronger; I do not underestimate this challenge, but I promise you that you will get the best of us, and then some. And as far as I am concerned, personally, "I am working on a dream" (Bruce Springsteen); building a dream company.

In closing, to my fellow co-workers who work relentlessly to 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.

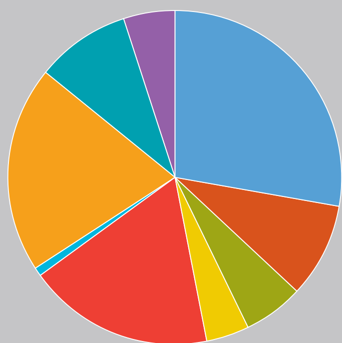
Sincerely,

Dori J. Segal
President and Chief Executive Officer

Local. Everywhere.

As Canada's leading owner, developer and operator of quality supermarket and drug store-anchored shopping centres located in growing metropolitan areas in Ontario, Quebec, Alberta and British Columbia, we apply our local market knowledge and economies of scale to create and enhance value.

AMR* by Geography



Greater Toronto Area	28%
Golden Horseshoe	9%
Ottawa/Gatineau	6%
Southwestern Ontario	4%
Greater Montreal Area	18%
Quebec City	1%
Calgary/Edmonton/Red Deer	20%
Greater Vancouver Area	9%
Other	5%

**Annual Minimum Rents.*

First Capital Realty Today

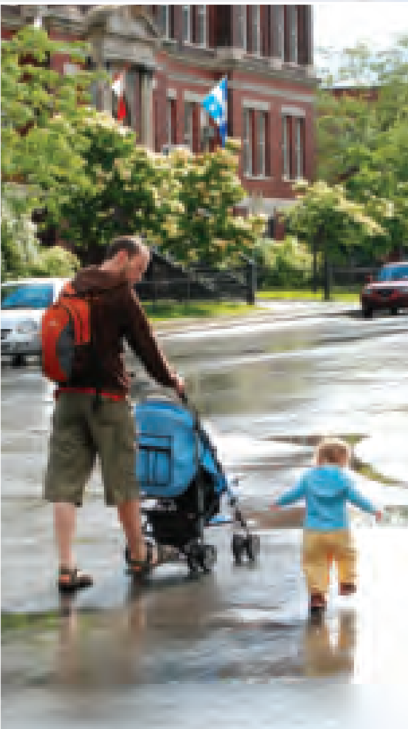
- 172 properties with interests in 20.1 million square feet of GLA
- 144 of 172 properties are supermarket and/or drug store-anchored
- Top 40 tenants provide over 57% of annual rents and occupy over 61% of GLA
- Over 45% of all annual minimum rents are from tenants with investment grade ratings
- 8.3 years average remaining lease term
- Owns 352 acres of active and future development land
  - 115 acres currently under development, redevelopment or expansion
  - 128 acres of land provide expansion opportunities at or adjacent to 36 properties
  - 109 acres of land provide new development opportunities at 8 sites

LCBO

TD

STARBUCKS COFFEE

WHOLE
FOODS

Loblaws


MAINTENANT
OUVERT
PHARMAPRIX

Bank of Montreal

McDonald's

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

17 Introduction
17 Business Overview and Strategy
22 Summary Consolidated Information and Highlights
24 Business and Operations Review
35 Results of Operations
44 Capital Structure and Liquidity
53 International Financial Reporting Standards ("IFRS")
54 Quarterly Financial Information
55 Fourth Quarter 2008 Operations and Results
59 Events Subsequent to December 31, 2008
60 Outlook
61 Summary of Significant Accounting Estimates and Policies
63 Summary of Changes to Significant Accounting Policies
64 Controls and Procedures
65 Risks and Uncertainties

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.

Certain statements contained in the "Business Overview and Strategy", "Business and Operations Review", "Capital Structure and Liquidity", "Outlook", "Summary of Significant Accounting Estimates and Policies", and "Risks and Uncertainties" sections of this MD&A constitute forward-looking statements, and other statements concerning First Capital Realty's objectives and strategies and management's beliefs, plans, estimates and intentions. Forward-looking statements can generally be identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "outlook", "objective", "may", "will", "should", "continue" and similar expressions. 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. All forward-looking statements in this MD&A are qualified by these cautionary 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 "Risks and Uncertainties".

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 "Risks and Uncertainties" 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, the relative illiquidity of real property, unexpected costs or liabilities related to acquisitions, construction, environmental matters, legal matters, reliance on key personnel, financial difficulties and defaults, changes in interest rates and credit spreads, 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. The assumptions underlying the Company's forward-looking statements contained in the "Outlook" section of this MD&A include that consumer demand will remain stable, demographic trends will continue and there will continue to be barriers to entry in the markets in which the Company operates.

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 securities laws.

These forward-looking statements are made as of March 5, 2009.

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, 2008 and 2007. Additional information, including the Company's current Annual Information Form, is available on SEDAR's website at www.sedar.com and on the Company's website at www.firstcapitalrealty.ca. Historical results and percentage relationships contained in its interim and annual consolidated financial statements and MD&A, including trends which might appear, should not be taken as indicative of its future operations. The information contained in this MD&A is based on information available to Management, and is dated, as of March 5, 2009.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (TSX:FCR) is Canada's leading owner, developer and operator of supermarket and drugstore-anchored neighbourhood and community shopping centres, located predominantly in growing metropolitan areas. As at December 31, 2008, the Company owned interests in 171 properties, including five under development, totalling approximately 20.0 million square feet

of gross leasable area and six 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"). Equity One is a fully integrated real estate investment trust specializing in the acquisition, asset management, development and redevelopment of quality retail properties located in strategic metropolitan areas across the United States. These centres are anchored by leading supermarkets, pharmacies and retail store chains. The Company owns 14.1 million shares, approximately 18.5% of Equity One. Including its investment in Equity One, the Company has interests in 327 properties totalling approximately 36.0 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 Management continues to:

- undertake selective development and redevelopment activities including land use intensification;
- be focussed and disciplined in acquiring income-producing properties; 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 Gatineau region and Quebec City. Over 90% of the Company's annual minimum rent is derived from these urban markets. Management believes that urban retail properties typically will generate sustainable returns on investment, and over time, capital appreciation. Management believes that concentration on urban markets and shopping centres that provide daily necessities also makes the Company's portfolio less sensitive to economic cycles.

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 to own and operate properties that are well-located within dense urban areas that provide consumers with daily necessities including both products and services. Over 80% of the Company's revenues come from tenants providing these daily necessities which include supermarkets, drugstores, banks, liquor stores, national discount retailers, and quick service restaurants. 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 actively acquires, develops, redevelops, expands and refurbishes its properties in its target markets across Canada to generate accretive growth. The Company has critical mass in its target markets which helps generate economies of scale and operating synergies.

The Company believes that a quality location is the single most important factor in acquiring, developing, redeveloping, owning 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.

Management also believes that the Company's shopping centres, along with its portfolio of adjacent sites, gives it unique intensification opportunities, including expanded retail opportunities and mixed use developments. The Company has proven development and redevelopment capabilities across the country to enable it to capitalize on these opportunities. The land use intensification trend in the Company's target urban markets is driven by the costs of expanding infrastructure beyond existing urban boundaries, the desire by municipalities to increase the tax base, environmental considerations and the migration of people to vibrant urban centres. This provides the Company with an opportunity to use its existing platform to sustain and improve cashflows and realize capital appreciation over the long term through its ownership and development and redevelopment activities.

Income-Producing Portfolio

The Company's properties are summarized as follows:

December 31	2008				2007			
	Number of Properties [1]	Gross Leasable Area (000's sq. ft.)	Percent Occupied	% of Annual Minimal Rent	Number of Properties [1]	Gross Leasable Area (000's sq. ft.)	Percent Occupied	% of Annual Minimum Rent
Ontario	**66**	**8,897**	**97.9%**	**47%**	61	8,613	96.8%	46%
Quebec	**56**	**5,278**	**95.1%**	**22%**	54	5,215	94.7%	23%
Alberta	**27**	**4,077**	**94.1%**	**21%**	25	3,779	93.1%	20%
British Columbia	**19**	**1,642**	**94.0%**	**9%**	17	1,593	95.0%	10%
Other Provinces	**3**	**156**	**90.3%**	**1%**	4	182	89.2%	1%
Total	**171**	**20,050**	**96.0%**	**100%**	161	19,382	95.3%	100%

[1] *Includes five properties under development in 2008 and six in 2007.*

Eighty three percent of these shopping centres are anchored by grocery stores and/or drug stores. The average size of the shopping centres is 117,000 square feet with sizes ranging from 20,000 to over 500,000 square feet.

In Management's view, 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 by percent of total annual minimum rent, and their respective credit ratings, portfolio presence and average remaining lease terms at December 31, 2008 are listed in the table below:

Tenant	DBRS Credit Rating	Number of Stores	Square Feet (in thousands)	Percent of Total Canadian Gross Leasable Area	Remaining Lease Term in Years
Sobeys	BBB (LOW)	45	1,553	7.7%	10.7
Shoppers Drug Mart	A (LOW)	56	744	3.7%	8.7
Loblaws	BBB	26	1,412	7.0%	9.1
Metro	BBB	30	1,128	5.6%	11.1
Zellers/Home Outfitters	—	19	1,717	8.6%	8.7
Canadian Tire	A (LOW)	22	799	4.0%	9.0
TD Canada Trust	AA	35	181	0.9%	5.7
Canada Safeway	BBB	9	409	2.0%	6.2
Royal Bank	AA	29	159	0.8%	4.9
Wal-Mart	AA	4	473	2.4%	10.5
		275	8,575	42.7%	9.1

At December 31, 2008, the Company's top 40 tenants, including the top ten above, represented 57.3% of the Company's annualized minimum rents and 61.1% of the gross leasable area in the Company's portfolio. More than 77% 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.

Development and Redevelopment

The Company 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. Redevelopment projects at existing properties are carefully managed to minimize tenant downtime. Generally, redevelopment of existing properties carries a lower risk profile relative to the returns due to the existing tenant base and the intensification opportunities. These properties continue to

operate during the planning, zoning and leasing phases of the project. New "greenfield" shopping centres are developed after obtaining anchor tenant lease commitments. 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 environmentally friendly. 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, 2008, the Company has 32 "Green" development projects underway, in the planning stage, or in the final stage of development.

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, to continue to generate greater economies of scale and leasing and operating synergies. The Company also looks to acquire adjacent or nearby 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 does not yet have a presence. Historically, such portfolio opportunities with properties of the same quality as the Company's are rare. At the present time identifying and completing acquisitions in our target urban markets continues to be extremely difficult due to demographic trends. Management believes that redevelopment activity is the best way to grow the portfolio in supply constrained markets.

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 historically contributed to improvement in occupancy levels and growth in 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. Team members with these real estate capabilities are located in each of the Company's offices in Toronto, Montreal, Calgary, Edmonton and Vancouver in order to effectively create value in the major urban markets where First Capital Realty operates.

The Company has a joint venture with Brookfield LePage Johnson Controls Facility Management Services ("BLJC") to provide basic property management services to its properties. The Company has operational control of all property management activities and owns a 60% economic interest in the joint venture. The Company expects to acquire 100% ownership in the joint venture effective in January 2010 based on the existing contractual agreement. There is no expected material change in operations or operating margins from the potential acquisition of the 40% interest the Company does not currently own.

Equity One

The Company owns 14.1 million shares as of December 31, 2008 (2007 – 14.0 million shares) or approximately 18.5% (2007 – 19.1%) of Equity One, the assets of which are similar to those of the Company. Equity One is a fully integrated, real estate investment trust ("REIT") in the United States specializing in the acquisition, asset management, development and redevelopment of quality retail properties located in strategic metropolitan areas across the United States. Equity One owns or has interests in 156 properties in the U.S. totalling approximately 16.0 million square feet consisting of 146 shopping centres, six non-retail properties and four parcels of land.

Company Key Performance Measures

There are many factors that contribute to the successful operation 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 broader economic environment. The Company quantifies the collective results of all of these factors into key measures: funds from operations and adjusted funds from operations ("FFO" and "AFFO") per diluted share and the overall leverage level. FFO and AFFO are non-GAAP measures of operating performance which are defined and reconciled to relevant GAAP measures in the "Results of Operations" section of this MD&A. Despite the global economic crisis and the resultant impact on the Canadian economy, the Company has continued to improve its key performance measures.

FFO and AFFO

The Company's AFFO and FFO have shown consistent growth, resulting primarily from growth in net operating income. This has been achieved through:

- development and redevelopment coming on line;
- active portfolio management, which ultimately results in higher occupancy and rental rates; and
- focussed and disciplined acquisitions of well-located income-producing properties.

The Company has also enhanced its operating platform in order to create the efficiencies required to grow the portfolio while keeping the growth in operating costs to a minimum.

	2008	2007	2006
FFO per diluted common share	$ 1.66[(1)]	$ 1.60	$ 1.58
AFFO per diluted common share	$ 1.46	$ 1.41	$ 1.36

(1) *Excludes non-cash impairment losses recorded by Equity One and dilution gain on the investment in Equity One. See Definition and Reconciliation of Funds from Operations.*

Leverage

The key leverage ratios demonstrate that the Company has continued to maintain a conservative balance sheet despite the growth in the portfolio. Management believes that this will continue to provide the Company with financial flexibility which is critical in the current challenging debt and equity markets.

	2008	2007	2006
Debt to aggregate assets	53.6%	56.4%	55.4%
Debt to market capitalization	52.5%	48.9%	43.7%

2008 Performance

Management achieved the following results, in order to obtain improvements in the key performance measures:

Same property net operating income ("NOI") growth

Same property NOI growth was 3.8% for the year. This primarily resulted from an increase in portfolio occupancy and increasing rental rates on new tenants and renewals.

Development and redevelopment activities

The Company delivered 835,300 square feet of newly developed and redeveloped space that was 97.5% occupied with an average rental rate of $19.70 per square foot in 2008.

Increasing efficiency and productivity of operations

Corporate expenses, excluding capital taxes and non-cash compensation, as a percentage of rental revenue declined from 4.6% in 2007 to 4.0% in 2008, reflecting Management's continued efforts in streamlining operations and improving the Company's operating platform.

Improving the cost of capital

The Company's weighted average cost of secured financing and senior unsecured debenture financing decreased to 5.92% as at December 31, 2008 compared to 6.06% as at December 31, 2007.

In addition, despite the state of the debt and equity markets in 2008, the Company completed $155 million of secured financing in 2008 and $225 million in common share issuances, ensuring continued strength in its balance sheet and liquidity position.

Management believes that it has met its key corporate objectives in 2008.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

As at December 31 (thousands of dollars)	2008	2007	2006
Operations Information			
Number of properties [1]	171	161	158
Gross leasable area (square feet)	20,050,000	19,382,000	18,166,000
Development land pipeline, including development underway (acreage) [2]	352	394	269
Portfolio occupancy	96.0%	95.3%	95.7%
Rate per occupied square foot	$ 15.10	$ 14.56	$ 13.95
Gross leasable area coming on line for the year (square feet)	835,300	521,400	478,900
Same property net operating income ("NOI") – increase over prior year	3.8%	4.9%	6.3%
Same property NOI – excluding redevelopment and expansion – increase over prior year	2.1%	3.4%	3.7%
Financial Information			
Gross shopping centre investments [3]	$ 3,381,132	$ 3,061,424	$ 2,689,005
Land and shopping centres under development	$ 281,959	$ 284,077	$ 178,347
Real estate investments, net book value	$ 3,599,331	$ 3,303,029	$ 2,943,062
Total assets	$ 3,720,262	$ 3,409,409	$ 3,060,879
Total aggregate assets [6]	$ 4,032,247	$ 3,640,233	$ 3,217,273
Mortgages, loans and credit facilities [4]	$ 1,573,530	$ 1,471,114	$ 1,388,650
Senior unsecured debentures payable [4]	$ 593,288	$ 595,376	$ 399,813
Convertible debentures payable [4]	$ 218,247	$ 217,030	$ 192,189
Shareholders' equity	$ 1,095,806	$ 951,331	$ 911,593
Capitalization and Leverage			
Shares outstanding	90,002,581	79,681,929	75,297,908
Enterprise value [5]	$ 4,110,879	$ 4,218,074	$ 4,080,426
Debt to aggregate assets [6]	53.6%	56.4%	55.4%
Debt to market capitalization [6]	52.5%	48.9%	43.7%

Year ended December 31 (thousands of dollars, except per share amounts)	2008	2007	2006
Revenues and Income			
Revenues	$ 419,614	$ 382,441	$ 332,897
Net operating income [7]	$ 259,591	$ 242,445	$ 205,626
Corporate expenses, excluding capital taxes and non-cash compensation	$ 16,490	$ 17,425	$ 14,780
As a percent of rental revenue	4.0%	4.6%	4.5%
As a percent of gross total assets	0.4%	0.5%	0.5%
Net income	$ 37,430	$ 30,353	$ 45,959
Basic and diluted earnings per share	$ 0.43	$ 0.39	$ 0.62
Equity One			
Equity income (Cdn$)	$ 8,716	$ 14,375	$ 32,696
Dividends from Equity One (Cdn$)	$ 18,193	$ 17,617	$ 33,265
Dividends from Equity One (US$)	$ 16,809	$ 16,756	$ 29,430
Average exchange on dividends (US$ to Cdn$)	1.08	1.05	1.13
Dividends			
Total dividends	$ 113,116	$ 98,688	$ 90,942
Per common share	$ 1.28	$ 1.26	$ 1.23
Dividends reinvested by shareholders [8]	$ 40,331	$ 76,316	$ 68,323
Funds from Operations ("FFO")			
FFO	$ 140,478	$ 125,356	$ 117,186
FFO per diluted share	$ 1.61	$ 1.60	$ 1.58
Weighted average diluted shares – FFO	87,260,224	78,427,583	74,321,824
FFO excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment [9]			
FFO	$ 145,083	$ 125,356	$ 117,186
FFO per diluted share	$ 1.66	$ 1.60	$ 1.58
Adjusted Funds from Operations ("AFFO") [9]			
AFFO	$ 139,876	$ 121,633	$ 117,549
AFFO per diluted share	$ 1.46	$ 1.41	$ 1.36
Weighted average diluted shares – AFFO	95,586,511	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, 2008 and December 31, 2007 figures are presented net of unamortized financing costs.
(5) Enterprise value is a non-GAAP measure and is calculated as equity market capitalization plus the book value of mortgages and credit facilities, and the principal amount of debentures and convertible debentures outstanding.
(6) Calculated in accordance with the unsecured debentures indenture definitions for the period.
(7) Net operating income is a non-GAAP measure of operating performance. See definition of Net Operating Income.
(8) $19.6 million of dividends payable at December 31, 2007 were reinvested in January 2008.
(9) FFO and AFFO are measures of operating performance that are 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 10.4% since December 31, 2007 primarily due to development coming on line.
- Investments in land and shopping centres under development as a percentage of aggregate assets decreased to 7.0% in 2008 from 7.8% in 2007 primarily due to completed development projects transferring to income-producing.
- Development acreage pipeline, including ongoing development, decreased by 10.7% to 352 acres primarily due to completed development projects transferring to income-producing.
- Net operating income increased by 7.1% over 2007 to $259.6 million due to growth in same property NOI and the impact of acquisitions and development coming on line.
- FFO excluding Equity One's non-cash impairment losses and dilution gain increased by 15.7% over 2007 to $145.1 million, due primarily to NOI growth.
- AFFO increased by 15.0% over 2007 to $139.9 million, due primarily to NOI growth.
- The enterprise value of the Company decreased to $4.1 billion at December 31, 2008 from $4.2 billion at December 31, 2007 due to an increase in its capital, offset by a decrease in the share price from $24.02 at December 31, 2007 to $18.97 at December 31, 2008.
- The number of common shares outstanding increased by 13.0% to 90.0 million due to various common share issuances.

BUSINESS AND OPERATIONS REVIEW

Investments in Real Estate

A summary of the Company's real estate investments is set out below.

(millions of dollars)	December 31, 2008			December 31, 2007		
	Gross Book Value	Accumulated Amortization	Net Book Value	Gross Book Value	Accumulated Amortization	Net Book Value
Shopping centres	$ 3,226	$ 258	$ 2,968	$ 2,917	$ 199	$ 2,718
Deferred costs	126	49	77	114	35	79
Intangible assets	54	24	30	53	17	36
Intangible liabilities	(25)	(8)	(17)	(23)	(5)	(18)
Land and shopping centres under development	282	—	282	284	—	284
Real property investments	3,663	323	3,340	3,345	246	3,099
Investment in Equity One, Inc.	227	—	227	192	—	192
Loans, mortgages and other real estate assets	32	—	32	12	—	12
Real estate investments	$ 3,922	$ 323	$ 3,599	$ 3,549	$ 246	$ 3,303

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

(millions of dollars)	2008	2007
Gross real property investments, January 1	$ 3,345	$ 2,867
Acquisition of income-producing properties	52	190
Acquisition of additional interests in existing properties and land parcels	2	11
Acquisition of additional space and land parcels adjacent to existing properties and properties held for development	16	62
Acquisition of land for development	6	56
Development activities and portfolio improvements	254	171
Disposition of real estate	(9)	(7)
Other	(3)	(5)
Gross real property investments, December 31	$ 3,663	$ 3,345
Gross shopping centre investments	$ 3,381	$ 3,061
Land and shopping centres under development	282	284
Gross real property investments, December 31	$ 3,663	$ 3,345

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, capital improvements and leasing at the Company's properties. These operating activities for 2008 and 2007, along with the Company's interest in Equity One, are discussed below.

Income-Producing Properties

As at December 31, 2008, the Company had interests in 171 income-producing properties which were 96.0% occupied with a total GLA of 20,050,000 square feet. This compares to 95.3% occupied and 19,382,000 square feet at December 31, 2007. The level of occupancy in the portfolio is discussed in more detail under the Leasing and Occupancy section of this MD&A.

2008 Acquisitions

In 2008, the Company invested $52.2 million in the acquisition of four income-producing shopping centres, comprising 292,100 square feet. Of these properties, one was anchored by a supermarket and one was anchored by a drugstore. In addition, the supermarket-anchored centre also included a drugstore as an additional anchor. 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)
Derry Heights Plaza	Milton	ON	Q1	—	—	49,000	$ 4.1
Deer Valley Shopping Centre	Calgary	AB	Q3	✔	✔	196,000	31.6
216 Elgin Street	Ottawa	ON	Q3	—	—	12,100	5.9
Gorge Shopping Centre	Victoria	BC	Q4	—	✔	35,000	10.6
Total						292,100	$ 52.2

During the year, the Company also disposed of a 26,000 square foot retail property in Regina, Saskatchewan for cash proceeds of $3.6 million, resulting in a gain of $1.6 million.

Additional Space and Adjacent Land Parcels

In 2008, the Company acquired one land site adjacent to an existing property held for development and seven land parcels at or adjacent to existing properties adding 12.5 acres of commercial land. Total expenditures on these additional interests and land parcels amounted to $16.6 million. These acquisitions are set out in the table below.

Property Name	City	Province	Quarter Acquired	Acreage	Acquisition Cost (in millions)
Milton Land (Derry Heights Plaza)	Milton	ON	Q1	6.19	$ 4.2
395, 425, 435 St. Charles (Marche du Vieux Longueuil)	Longueuil	QC	Q1	3.29	4.7
Kanata Terry Fox (Eagleson Place)	Ottawa	ON	Q1	0.01	0.1
Petro Canada (Hunt Club Place)	Ottawa	ON	Q1	1.50	0.7
South Fraser Gate Lane (South Fraser Gate)	Abbotsford	BC	Q1	0.01	0.1
437 Greber (Place Nelligan)	Gatineau	QC	Q2	0.78	1.1
4411 Kingston Road (Morningside Crossing)	Toronto	ON	Q3	0.31	1.7
Nanaimo Conference Centre	Nanaimo	BC	Q3	0.36	4.0
Total				12.45	$ 16.6

The Company sold four excess land parcels totalling 18.9 acres for gross proceeds of $11.0 million resulting in a total gain of $3.9 million. In addition, in 2008 the Company acquired an additional 25% interest in an existing land parcel for future development for $1.6 million in two transactions.

Land Sites for Development

During 2008 the Company invested $5.7 million in the acquisition of two land sites, comprising 9.5 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)
Bowmanville A&P	Bowmanville	ON	Q1	1.72	$ 2.7
1475 Huron Church	Windsor	ON	Q1	7.80	3.0
Total				9.52	$ 5.7

Impact of 2008 Acquisitions on Continuing Operations

On an overall basis, the level of acquisitions in 2008 was significantly lower when compared to the prior three years. This reflected Management's cautious approach and the declining spreads between capitalization rates and the cost of capital experienced beginning in the latter half of 2007 and continuing throughout 2008.

Management will continue to be selective and take 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 to continue 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.

The 2008 acquisitions are in line with the Company's business strategy based on their locations, tenancies and redevelopment or expansion opportunities.

2008 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 and refurbishment of existing shopping centres and expansion of space at existing shopping centres. All development activities are strategically managed to reduce risks and properties are developed after obtaining anchor lease commitments.

Development of 740,800 square feet was brought on line in 2008 with 719,600 square feet leased at an average rate of $19.49 per square foot. The Company also reopened 94,500 square feet of redeveloped space at an average rate of $21.26 per square foot.

Property Name	City	Province	Square Feet	Major Tenants
Development of new gross leasable area [2]				
Morningside Crossing [1]	Toronto	ON	116,300	Shoppers Drug Mart, Food Basics, GoodLife Fitness, LCBO
Westmount Shopping Centre	Edmonton	AB	87,000	Home Depot
Carrefour St. Hubert [1]	Longueuil	QC	78,800	Super C, SAQ, Remax, Purina Canada
Brantford Mall [1]	Brantford	ON	67,100	Cineplex, LCBO
Barrymore Building [1]	Toronto	ON	51,200	EMI Music Canada, West Elm
Centre Commercial Beaconsfield [1]	Beaconsfield	QC	50,300	Metro, Royal Bank
Marche Du Vieux Longueuil [1]	Longueuil	QC	39,000	Metro
McKenzie Towne Centre [1]	Calgary	AB	29,400	GoodLife Fitness
Shoppes On Dundas [1]	Oakville	ON	28,100	Shoeless Joe's
Grimsby Square Shopping Centre [1]	Grimsby	ON	26,000	Shoppers Drug Mart, Marks Work Wearhouse
Strandherd Crossing	Ottawa	ON	20,000	GoodLife Fitness
South Fraser Gate [1]	Abbotsford	BC	17,800	Shoppers Drug Mart
Towerlane Mall [1]	Airdrie	AB	17,800	TD Bank
Carrefour St. David [1]	Quebec	QC	14,400	McDonalds
Other space – various properties			97,600	
			740,800	
Redevelopment of existing gross leasable area				
Langley Crossing Shopping Centre [1]	Langley	BC	19,000	Shoppers Home Health Care, Long & McQuade
Fairmount Shopping Centre	Calgary	AB	18,200	Sobey's
Steeple Hill West [1]	Pickering	ON	18,200	Allstate, Shoppers Drug Mart
Westmount Shopping Centre	Edmonton	AB	17,900	Blockbuster, Smitty's Restaurant, Alberta Cancer Board
Airdrie Village Square [1]	Airdrie	AB	8,600	
Other space – various properties			12,600	
			94,500	
Total			835,300	

[1] *Constructed in accordance with Leadership in Energy and Environmental Design (LEED) certificate guidelines.*
[2] *Includes new space created in redevelopment properties and greenfield developments.*

The 2008 development of 835,300 square feet compares with 521,400 square feet developed in 2007. The developed space, including redevelopment was 97.5% occupied when transferred to income-producing shopping centres at an average rental rate of $19.70 per square foot. 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 to the growth of the Company.

The Company's development sites and properties as at December 31, 2008 are summarized as follows:

	Number of Sites/Properties	Acreage [1]	Developable Square Feet [1] (in thousands)	Net Book Value (in millions)
Development properties under construction	5	51.9	303.8	$ 79.3
Redevelopment projects underway	7	54.4	305.9	59.3
Expansion projects underway	3	7.9	90.4	10.8
Properties held for development	8	108.8	1,012.5	45.7
Land parcels adjacent to/part of existing properties	25	103.1	991.2	70.2
Land parcels adjacent to/part of existing properties available for expansion	11	25.6	244.5	—
Other development related costs	—	—	—	16.7
Total	59	351.7	2,948.3	$ 282.0

[1] *Net of partners' interests.*

As at December 31, 2008, 700,100 square feet of gross leasable area was under development, redevelopment or expansion on 114.2 acres of land sites or parcels of land adjacent to existing properties. Costs to complete these developments are estimated to be approximately $114.8 million, the majority of which will be incurred in 2009 and the first quarter of 2010. 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, 2008, six land sites included in properties held for development and land parcels adjacent to/part of existing properties comprising our net interest of 81.3 acres and developable square feet totalling 706,500 square feet are in the planning stage of development. In addition, the Company is actively planning future redevelopment and/or expansion at 20 additional shopping centres.

2007 Acquisitions

In 2007, First Capital Realty expanded its portfolio through various acquisitions as set out 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 contained a pharmacy. 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 2007, 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.

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	Gross Leasable Area (square feet)	Acquisition Cost (in millions)
Additional space at existing shopping centres					
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
Total				195,000	$ 52.7

Property Name	City	Province	Quarter Acquired	Acreage	Acquisition Cost (in millions)
Land parcels at or adjacent to existing properties					
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
Total				4.66	$ 9.4

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	Province	Quarter Acquired	Acreage	Acquisition Cost (in millions)
Pergola Land	Guelph	ON	Q1	27.8	$ 12.2
Creditview & Mayfield (1)	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 (2)	Ottawa	ON	Q3	12.6	—
Burnhamthorpe & Trafalgar (1)	Oakville	ON	Q3	12.5	4.5
Dickson Trail Crossing (3)	Airdrie	AB	Q3	4.5	2.9
Total				85.6	$ 56.2

(1) *Acquired prior to zoning process.*
(2) *33% interest.*
(3) *70% interest.*

2007 Development Activities

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

Property Name	City	Province	Square Feet	Major Tenants
Development of new gross leasable area [2]				
Faubourg des Prairies [1]	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 [1]	Oakville	ON	28,100	TD Canada Trust, Shoppers Drug Mart
Morningside Crossing [1]	Toronto	ON	24,600	TD Canada Trust, CIBC
Carrefour Charlemagne [1]	Charlemagne	QC	22,500	Rousseau Sport
Cochrane City Centre	Cochrane	AB	24,800	
Other space – various properties			6,800	
			252,200	
Redevelopment of existing gross leasable area				
Galeries Normandie	Montreal	QC	79,300	IGA Extra, Pharmaprix, Caisse Populaire
Promenades Levis	Levis	QC	24,700	McDonald's, Metro Expansion
Harbour Front Centre [1]	Vancouver	BC	19,000	Petsmart
Credit Valley Town Plaza	Mississauga	ON	17,800	Pharma Plus
Langley Crossing Shopping Centre [1]	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 [1]	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 [1]	Airdrie	AB	7,100	Staples
Other space – various properties			37,300	
			269,200	
Total			521,400	

[1] *Constructed in accordance with Leadership in Energy and Environmental Design (LEED) certificate guidelines.*
[2] *Includes new space created in redevelopment properties and greenfield development.*

Developed gross leasable area of 521,400 square feet was 97.4% occupied at December 31, 2007, at an average rate of $19.52 per square foot.

At December 31, 2007, the Company had 394 acres of land sites and parcels available for development.

The Company's development sites and properties as at December 31, 2007 are summarized as follows:

	Number of Sites/Properties	Acreage [1]	Developable Square Feet [1] (in thousands)	Net Book Value (in millions)
Development properties under construction	6	31.3	363.8	$ 57.6
Redevelopment projects underway	11	79.2	867.8	56.7
Expansion projects underway	5	8.6	126.6	21.9
Properties held for development	18	167.4	1,681.2	95.8
Land parcels adjacent to/part of existing properties	22	78.5	569.1	41.2
Land parcels adjacent to/part of existing properties available for expansion	13	28.6	275.8	—
Other development related costs	—	—	—	10.9
Total	75	393.6	3,884.3	$ 284.1

[1] *Net of partners' interests.*

The Company invested a total of $170.9 million in 2007 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

(thousands of dollars)	**2008**	2007
Expenditures on:		
Deferred leasing costs		
Revenue sustaining	**$ 2,783**	$ 1,927
Revenue enhancing	**1,357**	1,605
Other items and adjustments	**(107)**	(103)
	4,033	3,429
Shopping centres		
Revenue sustaining	**9,083**	7,365
Revenue enhancing	**11,675**	13,410
Property repositioning	**1,004**	2,306
Other items and adjustments	**460**	637
	22,222	23,718
Land and shopping centres under development	**227,775**	143,744
Total	**$ 254,030**	$ 170,891

Revenue sustaining capital expenditures are expenditures required for maintaining shopping centre infrastructure and revenues from current leases. Typically, these costs average over a longer term approximately $0.50 per square foot annually for the Company. In 2008, they totalled $0.60 per square foot and in 2007 they totalled $0.49 per square foot. During 2008, the Company increased its expenditures on roof and parking lot replacements at several of its centres which will reduce its annual maintenance expenditures at these centres going forward.

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 and future rents per square foot, development activities, the time leasable space has been vacant and other factors when assessing whether an expenditure is revenue enhancing or sustaining.

The Company's active development and property improvement initiatives improve the physical structures and appearance of its shopping centres. At December 31, 2008 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
39.4%	21.8%	13.4%	10.3%	15.1%

Leasing and Occupancy

Changes in the Company's gross leasable area, occupancy and rate per occupied square foot during the year are set out below:

		Occupied Square Feet		Under Redevelopment Square Feet		Vacant Square Feet		
Year ended December 31, 2008	Total Square Feet (thousands)	(thousands)	%	(thousands)	%	(thousands)	%	Rate Per Occupied Square Foot
Opening balance, January 1, 2008	**19,382**	**18,463**	**95.3%**	**363**	**1.9%**	**556**	**2.8%**	**$ 14.56**
Tenant openings	—	419		—		(419)		18.37
Tenant closures	—	(395)		—		396		(16.71)
Closures for redevelopment	—	(206)		206		—		(14.00)
Net new leasing	—	(182)		206		(23)		
Developments – coming on line	741	720	97.2%	—		21		19.49
Redevelopments – coming on line	—	94		(63)		(32)		21.26
Demolitions	(328)	(93)		(199)		(37)		(14.88)
Dispositions	(26)	(26)		—		—		(10.64)
Reclassification and remeasurements	(11)	(4)		(33)		27		—
Portfolio activity before acquisitions	376	509		(89)		(44)		15.15
Acquisitions	292	287	98.3%	—		5		11.62
Closing balance, December 31, 2008	**20,050**	**19,259**	**96.0%**	**274**	**1.4%**	**517**	**2.6%**	**$ 15.10**
Renewals	—	1,228		—		—		$ 16.38
Renewals – expired	—	(1,228)		—		—		(14.37)
Net increase per square foot from renewals								$ 2.01
% Increase on renewal of expiring rents								14.0%

In 2008, gross new leasing totalled 1,233,000 square feet including development and redevelopment space coming on line compared to 928,000 square feet in 2007. This gross new leasing will generate additional annual minimum rent of approximately $23.7 million as compared to $17.4 million in 2007. The Company achieved a 14.0% increase on 1,228,000 square feet of renewal leases over the expiring rates which compares to 2007 renewals signed at 13.0% greater than expiring rents on 1,081,000 square feet of space.

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 $15.10 at December 31, 2008. This compares to an average rate of $14.56 per square foot at December 31, 2007.

Portfolio occupancy at December 31, 2008 of 96.0% compares to 95.3% at December 31, 2007. Closures for redevelopment totalled 207,000 square feet in 2008, providing potential for future income growth through leasing and redevelopment activities.

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 fully integrated real estate investment trust specializing in the acquisition, asset management, development and redevelopment of quality retail properties located in strategic metropolitan areas across the United States. These centres are anchored by leading supermarkets, pharmacies and retail store chains. Information on the Company's ownership interest in Equity One is set out below:

(thousands of dollars, except per share amounts)	**2008**	2007
# of Shares Owned	**14,080,069**	13,983,569
Equity One Basic Shares Outstanding	**76,198,000**	73,300,107
% Basic Ownership as at year-end	**18.5%**	19.1%
Investment in Equity One, Inc. (Cdn$)	**$ 227,259**	$ 191,536
Funds from operations from Equity One, Inc. (Cdn$)	**$ 20,005**	$ 20,807
Funds from operations from Equity One, Inc. (US$)	**$ 18,919**	$ 19,258
Dividends from Equity One (Cdn$)	**$ 18,193**	$ 17,617
Dividends from Equity One (US$)	**$ 16,809**	$ 16,756
Average exchange on dividends (US$ to Cdn$)	**1.08**	1.05
Equity One dividends per common share (Cdn$)	**$ 1.28**	$ 1.29
Equity One dividends per common share (US$)	**$ 1.20**	$ 1.20

Equity One Property Portfolio

Equity One owns or has interest in 156 properties comprising approximately 16.0 million square feet consisting of 146 shopping centres, six non-retail properties, and four projects in development/redevelopment as at December 31, 2008.

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-five percent of the total square footage owned by Equity One is located in Florida, with the balance of the properties in nine other states. Additionally, all of Equity One's top ten tenants are represented by U.S.-based corporations that are distinct from the Company's top ten tenants.

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

Analysis of Investment in Equity One

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 43 consecutive quarters, providing the Company with a source of stable cash income. At December 31, 2008, US$126.5 million (2007 – $120.4 million) of the outstanding debt was secured by the shares held in Equity One.

Loans, mortgages and other real estate assets

(thousands of dollars)	**2008**	2007
Investment in units of Allied Properties Real Estate Investment Trust	**$ 19,808**	$ —
Investments in other marketable securities	**2,980**	2,130
Loans receivable	**9,692**	9,459
	$ 32,480	$ 11,589

The investment in Allied Properties REIT at December 31, 2008 consisted of 1,591,000 units with a cost of $16.57 per unit. As at December 31, 2008, the market value of these units was $12.45 per unit resulting in an unrealized loss of $4.12 per unit or a total of $6.6 million which has been recorded in other comprehensive income, as the investment has been classified as available-for-sale under relevant accounting rules. Subsequent to year end, the Company made further investments in Allied Properties REIT which are discussed under Subsequent Events.

Management has considered whether there is an "other-than-temporary" decline in the value of the Allied Properties REIT units, given the difference between current market value and cost. An "other-than-temporary" decline would result in the loss being reclassified to net income. Management has concluded that an "other-than-temporary" decline does not exist as of December 31, 2008 due to the fact that the decline in the unit price of Allied primarily took place in a two-and-a-half month period in 2008 and therefore, the decline is not, as of December 31, 2008, considered prolonged. The Company will periodically re-evaluate whether the decline is other-than-temporary and reclassify the loss if appropriate.

From time to time the Company invests in the marketable securities of other entities. Loans receivable primarily consist of loans to co-owners on development properties, which bear a weighted average interest rate of 7.1% and are secured by the co-owners interest in the property.

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. These measures are the primary methods used in analyzing real estate organizations in Canada. 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) are not to 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 on depreciable assets 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.

FFO is considered a meaningful additional measure of operating performance, as it excludes amortization of real estate assets. Amortization expense assumes that the value of real estate assets diminishes predictably over time, which is clearly not a valid assumption. FFO also adjusts for certain items included in GAAP net income that may not be the most appropriate determinants of the long-term operating performance of the Company including gains and losses on depreciable real estate assets.

Funds from Operations

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

(thousands of dollars)	2008	2007
Net income for the year	$ 37,430	$ 30,353
Add (deduct):		
Amortization of shopping centres, deferred costs and intangible assets	84,629	77,964
Gain on disposition of income-producing shopping centres	(1,631)	(323)
Equity income from Equity One	(8,716)	(14,375)
Funds from operations from Equity One	12,502	20,807
Future income taxes	16,264	10,930
FFO	140,478	125,356
Add: the Company's share of Equity One's non-cash impairment loss	7,503	—
Deduct: dilution gain on Equity One investment	(2,898)	—
FFO excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	$ 145,083	$ 125,356

The components of FFO are:

(thousands of dollars, except per share amounts)	2008	2007
Net operating income	$ 259,591	$ 242,445
Interest expense	(113,685)	(116,043)
Interest and other income	7,791	5,227
Corporate expenses	(21,577)	(23,544)
Funds from operations from Equity One	12,502	20,807
Amortization	(2,159)	(1,864)
Current income taxes	(1,985)	(1,672)
FFO	140,478	125,356
Add: the Company's share of Equity One's non-cash impairment loss	7,503	—
Deduct: dilution gain on Equity One investment	(2,898)	—
FFO excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	$ 145,083	$ 125,356
FFO per diluted share	$ 1.61	$ 1.60
Add: the Company's share of Equity One's non-cash impairment loss	0.09	—
Deduct: dilution gain on Equity One investment	(0.04)	—
FFO per diluted share excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	$ 1.66	$ 1.60
Weighted average diluted shares – FFO	87,260,224	78,427,583

The Company's funds from operations totalled $140.5 million or $1.61 per diluted common share for the year ended December 31, 2008. Year-to-date Equity One contributed $12.5 million to the Company's FFO.

The FFO reported by Equity One for the year ended December 31, 2008 included non-cash impairment losses on its investment in DIM Vastgoed N.V. as well as on certain development assets. The Company's share of these losses is $7.5 million or $0.09 per diluted common share for the year.

FCR has also reported a one time dilution gain on its investment in Equity One of $2.9 million.

Gains on land sales amounted to $3.9 million for the year ended December 31, 2008 or $0.05 per diluted share.

FFO excluding the Equity One impairment losses and dilution gain for the year ended December 31, 2008 totalled $145.1 million or $1.66 per diluted common share, and increased from $125.4 million or $1.60 per diluted common share in the same period in 2007. The increase in FFO excluding the impairment losses and dilution gain year-to-date was primarily due to an increase in NOI resulting from development projects coming on line, same property NOI growth, property acquisitions, decreased interest expense and gains on land sales. The increase in per share amounts was achieved despite the increase in the basic and weighted average number of diluted common shares outstanding compared to the same prior year period.

Adjusted Funds from Operations ("AFFO")

Management views AFFO as an effective measure of cash generated from operations. AFFO for the year ended 2008 totalled $139.9 million or $1.46 per diluted common share compared to $121.6 million or $1.41 per diluted common share in the prior year. AFFO is calculated by adjusting FFO for straight-line and market rent adjustments, non-cash compensation expenses, interest payable in shares, non-cash gains or losses on debt, hedges and land sales and actual costs incurred for capital expenditures and leasing costs for maintaining shopping centre infrastructure and current lease revenues. The Company's proportionate share of Equity One FFO is excluded and only the regular cash dividends received are included in AFFO. The weighted average diluted shares outstanding for AFFO is adjusted to assume conversion of the outstanding convertible debentures.

(thousands of dollars, except per share amounts)	2008	2007
FFO excluding Equity One's non-cash impairment loss and dilution gain	$ 145,083	$ 125,356
Add/(deduct):		
Rental revenue recorded on a straight-line basis and market rent adjustments	(7,627)	(8,875)
Non-cash compensation expense	3,899	4,295
Interest expense payable in shares	14,031	13,160
Change in cumulative unrealized loss (gain) on marketable securities	1,638	—
Dividend income – return of capital portion	623	339
Non-cash (gain) loss on extinguishment of debt	(438)	483
Funds from operations from Equity One excluding non-cash impairment loss	(20,005)	(20,807)
Dividends from Equity One (regular)	18,193	17,617
Gain on termination of hedge	290	—
Gain on interest rate swaps not designated as hedges	—	(643)
Gain on disposition of land	(3,945)	—
Revenue sustaining capital expenditures and leasing costs	(11,866)	(9,292)
AFFO	$ 139,876	$ 121,633
AFFO per diluted share	$ 1.46	$ 1.41
Weighted average diluted shares for AFFO [1]	95,586,511	86,304,978

[1] *Includes the weighted average outstanding shares that would result from the conversion of the convertible debentures.*

For the year ended December 31, 2008, AFFO rose 15.0% to $1.46 per diluted common share from $1.41 per diluted common share in the same period in 2007 primarily due to increased net operating income from its income properties.

The Company revised its definition of AFFO to include amortization of issue costs, premiums and discounts for the year ended December 31, 2008. The comparative figures presented have been restated for this change.

A reconciliation from cash provided by operating activities (a GAAP measure) to AFFO is presented below:

(thousands of dollars)	2008	2007
Cash provided by operating activities	$ 145,958	$ 131,408
Realized (losses) gains on sale of marketable securities	(212)	2,504
Dividend income – return of capital portion	623	339
Deferred leasing costs	4,033	3,429
Net change in non-cash operating items [1]	2,978	(6,543)
Settlement of restricted share units	1,275	1,826
Amortization of other assets	(1,305)	(1,051)
Amortization of financing fees	(854)	(813)
Interest paid in excess of coupon interest on assumed mortgages	1,436	1,890
Debenture interest in excess of coupon	(864)	(696)
Other non-cash interest expense	(2,466)	(2,480)
Convertible debenture interest paid in common shares	(12,891)	(12,048)
Convertible debenture interest payable in common shares	14,031	13,160
Revenue sustaining capital expenditures and leasing costs	(11,866)	(9,292)
AFFO	$ 139,876	$ 121,633

[1] *A realized gain on an interest rate swap of $290,000 is included in the AFFO calculation.*

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. As a result, net operating income may not be comparable with similar measures presented by other entities. Net operating income is not to be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP.

Net operating income increased in 2008 by $17.1 million to $259.6 million. The drivers of the increase in NOI are as follows:

(thousands of dollars)	% increase	2008	2007
Same property NOI excluding expansion and redevelopment	2.1%	$ 199,040	$ 194,902
Expansion and redevelopment space NOI		19,457	15,499
Same property NOI with expansion and redevelopment	3.8%	218,497	210,401
Greenfield development		20,047	15,973
2008 Acquisitions		1,376	—
2007 Acquisitions		12,653	7,293
Rental revenue recognized on a straight-line basis		5,374	6,753
Market rent adjustments		2,253	2,122
Dispositions and other		(609)	(97)
NOI		$ 259,591	$ 242,445
Property rental revenue		$ 410,192	$ 376,891
Property operating costs		150,601	134,446
NOI		$ 259,591	$ 242,445
NOI Margin		63.3%	64.3%

For the year ended December 31, 2008, acquisitions completed in 2008 and 2007 contributed $14.0 million to NOI, while greenfield development activities contributed a further $20.0 million.

Same property NOI increased by 3.8%, generating growth in NOI of $8.1 million during the year over 2007, due primarily to redevelopment and expansion space and to increases in lease rates and occupancy. Same property NOI for the year ended December 31, 2008, excluding expansion and redevelopment space increased by $4.1 million or 2.1% over the same prior year.

In the normal course of operations, the Company receives payments from tenants as compensation for the termination of leases. In 2008, the Company received lease termination payments of $0.4 million or 0.1% of total property revenues as compared to $0.7 million, or 0.2% of total property revenues in 2007. Lease termination income has been less than 1% of total property revenues over the past five years. The lease termination payments are included in same property NOI. Percentage rents in 2008 were $2.4 million compared to $2.7 million in the prior year and have decreased primarily due to conversion of percentage rent tenants to net lease tenants. Percentage rent income is typically not a significant component of lease terms on supermarket and drugstore-anchored centres.

The ratio of net operating income to gross rental revenues in 2008 of 63.3% reflects the inclusion of straight-line rents and market rent adjustments of $7.6 million. Excluding these items, the NOI margin is approximately 62.6%. Similarly, the 2007 ratio of net operating income to gross property revenues of 64.3% reflects the inclusion of straight-line rent and market rent adjustment amounts of $8.9 million in NOI. Excluding these items, the NOI margin was approximately 63.5% in 2007. The margins have declined in 2008 primarily due to higher than normal snow removal and utility costs in many of the Company's eastern region properties.

Equity Income from Equity One

The Company received dividends from Equity One of US$16.8 million or US$1.20 per share, in the year ended December 31, 2008 compared to US$16.8 million or US$1.20 per share in the year ended December 31, 2007. The Canadian dollar equivalent of these dividends was $18.2 million and $17.6 million, in the comparative periods of 2008 and 2007, 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, 2008, equity income from Equity One decreased to $8.7 million from $14.4 million in the prior year. The decrease in the equity income is primarily due to the Company's share of impairment losses recorded by Equity One which was US$6.9 million (Cdn$7.5 million). This was partially offset by the gain on the sale by Equity One of seven properties and one out-parcel to a joint venture in a transaction valued at approximately US$176.8 million in the second quarter of 2008. The Company's share of Equity One's gain was US$3.5 million (Cdn$ $4.3 million).

Interest and Other Income

(thousands of dollars)	2008	2007
Realized (losses) gains on sale of marketable securities	$ (212)	$ 2,504
Change in cumulative unrealized gains on marketable securities held-for-trading	(1,638)	—
Interest, dividend and distribution income from marketable securities and cash investments	1,474	1,768
Dilution gain on investment in Equity One, Inc.	2,898	—
Gain (loss) on settlement of debt	438	(483)
Gains on disposition of shopping centres	1,631	323
Gains on disposition of land	3,945	—
Realized gains on interest rate swaps not designated as hedges	—	161
Unrealized gains on interest rate swaps not designated as hedges	—	643
Interest income from development loans	539	658
Other income (expense)	347	(24)
Total interest and other income	$ 9,422	$ 5,550

Interest and other income in 2008 included a $2.9 million dilution gain on the Company's investment in Equity One. The dilution gain on the Company's investment in Equity One arose as a result of the issuance of common shares by Equity One in 2008. Equity One's number of common shares outstanding increased from 73.3 million to 76.2 million during 2008 and the Company's ownership interest declined from 19.1% to 18.5%.

Interest Expense

(thousands of dollars)	2008	2007
Mortgages, loans and credit facilities		
Unsecured	$ 7,578	$ 4,040
Secured by Canadian properties	71,080	71,981
Secured by investment in Equity One and other investment	7,765	10,387
	86,423	86,408
Senior unsecured debentures and convertible debentures	45,519	42,756
Amortization of deferred financing and deferred issue costs	2,466	2,480
Interest capitalized to land and shopping centres under development	(20,723)	(15,601)
Total interest expense	$ 113,685	$ 116,043

Interest Expense on Mortgages and Credit Facilities – Canada

(thousands of dollars)	2008	2007
Interest expense	$ 58,612	$ 61,342
Interest capitalized	20,723	15,601
Amortization of financing costs, premiums and discounts	380	829
Change in accrued interest	(416)	73
Total Canadian mortgage and credit facilities interest paid	$ 79,299	$ 77,845

The increase of $1.5 million in interest paid on Canadian mortgages and credit facilities in 2008 over 2007 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 mortgages, from 6.32% at December 31, 2007 to 6.21% at December 31, 2008, as rates on new financings were lower than those on existing debt. The interest capitalized to properties under development in 2008 increased over 2007 as a result of increased development activity during the year.

Interest Expense on U.S. Loans and Credit Facilities

(thousands of dollars)	2008	2007
Interest expense (US$)	$ 7,804	$ 9,985
Less amortization of financing fees	(152)	(169)
Interest expense excluding amortization of financing fees (US$)	$ 7,652	$ 9,816
Average exchange rate	1.06	1.07
Interest expense (Cdn$)	$ 8,307	$ 10,710
Less amortization of financing fees	(163)	(184)
Interest expense excluding amortization of financing fees (Cdn$)	8,144	10,526
Change in accrued interest	845	407
Total US$ loans and credit facilities interest paid (Cdn$)	$ 8,989	$ 10,933

Measured in U.S. currency, the interest expense on the U.S. loans and credit facilities excluding amortization of financing fees decreased by 22% in 2008 from 2007 as a result of a lower average interest rate. The Company uses U.S. dollar-denominated debt to finance its U.S. dollar investments.

Interest on Senior Unsecured Debentures

(thousands of dollars)	2008	2007
Interest expense on senior unsecured debentures	$ 32,736	$ 30,831
Amortization of financing costs, premiums and discounts	(898)	(801)
Change in accrued interest	57	(2,989)
Cash interest paid	$ 31,895	$ 27,041

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

Series	Date of Issue	Par Value	Coupon Rate
E	January 31, 2007	$100 million	5.36%
F	April 5, 2007	$100 million	5.32%

Interest on Convertible Debentures

(thousands of dollars)	2008	2007
Interest expense on convertible debentures	$ 14,030	$ 13,160
Amortization of financing costs, premiums and discounts	(1,213)	(1,130)
Change in accrued interest	74	18
Less interest paid in common shares of the Company	(12,891)	(12,048)
Cash interest paid	$ —	$ —

The increase in convertible debenture interest expense is due to the interest on the $50 million of par value 5.50% convertible unsecured subordinated debentures issued on June 29, 2007 partially offset by 2007 conversions of $17 million of the principal amount to common shares of the Company by holders.

Corporate Expenses

(thousands of dollars)	**2008**	2007
Salaries, wages and benefits	**$ 16,970**	$ 15,996
Non-cash compensation	**3,899**	4,295
Other general and administrative costs	**7,254**	7,119
Capital taxes, net of recoveries from tenants	**1,188**	1,824
Abandoned transaction costs	**1,133**	3,365
Amounts capitalized to properties under development and deferred leasing costs	**(8,867)**	(9,055)
	$ 21,577	$ 23,544

(thousands of dollars)	**2008**	2007
Corporate expenses, excluding capital taxes and non-cash compensation	**$ 16,490**	$ 17,425
As a percent of rental revenue	**4.0%**	4.6%
As a percent of gross total assets	**0.4%**	0.5%

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, other team members and select service providers to the Company.

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 incurred $1.1 million of property acquisition costs for acquisitions that were not determined to be feasible during the year ended December 31, 2008, which compares to $2.2 million in the same period in 2007.

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, 2008 totalled $8.9 million compared to $9.1 million in the prior year comparative period. Amounts capitalized are based on specific leasing activities and development projects underway. The decrease in capitalized costs in 2008 compared to 2007 is due to gross corporate expenses being lower in 2008.

Amortization Expense

(thousands of dollars)	2008	2007
Shopping centres	$ 60,253	$ 55,118
Deferred costs	16,593	14,629
Intangible assets	7,783	8,217
Amortization of real estate assets	84,629	77,964
Deferred financing fees	854	813
Other assets	1,305	1,051
Total amortization	$ 86,788	$ 79,828

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

Income Taxes

(thousands of dollars)	2008	2007
Current income taxes	$ 1,985	$ 1,672
Future income taxes	16,264	10,930
Income taxes	$ 18,249	$ 12,602

The total income tax expense has increased compared to 2007 primarily due to an increase in net income before taxes.

Net Income

(thousands of dollars, except per share amounts)	2008	2007
Net income	$ 37,430	$ 30,353
Earnings per share (diluted)	$ 0.43	$ 0.39
Weighted average common shares – diluted	87,260,224	78,427,583

Net income for the year ended December 31, 2008 was $37.4 million or $0.43 per share (basic and diluted) compared to $30.4 million or $0.39 per share (basic and diluted) for the year ended December 31, 2007. The increase in net income is primarily due to an increase in NOI resulting from development projects coming on line, same property NOI growth, acquisitions, decreased interest, gains on the sale of land offset by increased amortization expense and decreased income from Equity One. In addition, there was an increase in the basic and weighted average diluted shares outstanding compared to the same prior year period.

CAPITAL STRUCTURE AND LIQUIDITY

Capital Employed

(thousands of dollars)	2008	2007
Equity capitalization (end of period)		
Common stock outstanding	90,002,581	79,681,929
Diluted common stock [1]	90,549,743	80,468,397
Mortgages, loans and credit facilities	$ 1,573,530	$ 1,471,114
Senior unsecured debentures (principal amount)	597,000	600,000
Convertible debentures (principal amount)	233,000	233,000
Equity market capitalization	1,707,349	1,913,960
Total capital employed	$ 4,110,879	$ 4,218,074
Debt to aggregate assets [2]	53.6%	56.4%
Debt to total market capitalization [2]	52.5%	48.9%
Weighted average interest rate on fixed rate debt and senior unsecured debentures	5.92%	6.06%
Weighted average maturity on mortgages, credit facilities and senior unsecured debentures (years)	5.2	4.8

[1] *Includes effect of all dilutive securities except convertible debentures.*
[2] *Calculated in accordance with the unsecured debentures indenture definitions for the period.*

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 strategy 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. A credit rating in the BBB category is generally an indication of adequate credit quality as defined by DBRS. 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. 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. DBRS and Moodys have provided updates in 2008 at these same investment grade ratings. 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.

Since the latter half of 2007 and throughout 2008, the unsecured credit markets have been severely constrained. Consequently, Management has shifted the Company's financing strategy to focus on traditional sources of secured financing. The Company's substantial pool of unencumbered assets and strong balance sheet have enabled the Company to access the secured financing markets. Within the mortgage financing market, conditions are challenging as well, with spreads widening significantly, and the conduit market effectively closing down. The Company completed $154.7 million of secured financing on eight properties in 2008 at a weighted average rate of 5.54% and a weighted average term of 7.46 years. The increased spreads were largely offset by decreases in the underlying Government of Canada bond reference yields to date. In addition, the Company raised $225 million through the issuance of common stock in 2008.

For the time being, the Company will continue to use its substantial pool of unencumbered assets to raise secured financing to fund its growth. Where it is deemed appropriate, the Company will use its equity as a source of financing and may strategically sell non-core assets to make better use of the capital.

Consolidated Debt and Principal Amortization Maturity Profile

(thousands of dollars)	Mortgages	Cdn Credit[1] Facilities	Senior[2] Unsecured Debentures	U.S. Loans and Credit Facilities	Total	% Due
2009	$ 91,700	$ —	$ —	$ 8,222	$ 99,922	4.6%
2010	141,718	209,190	—	136,476	487,384	22.4%
2011	91,880	—	200,000	9,348	301,228	13.9%
2012	135,935	—	100,000	—	235,935	10.9%
2013	179,099	—	97,000	—	276,099	12.7%
2014	218,555	—	200,000	—	418,555	19.3%
2015	180,087	—	—	—	180,087	8.3%
2016	42,843	—	—	—	42,843	2.0%
2017	7,260	—	—	—	7,260	0.3%
2018	88,679	—	—	—	88,679	4.1%
Thereafter	33,645	—	—	—	33,645	1.5%
Add: unamortized deferred financing costs and premiums and discounts, net	(833)	—	(3,712)	(274)	(4,819)	—
	$ 1,210,568	$ 209,190	$ 593,288	$ 153,772	$ 2,166,818	100.0%

[1] Subsequent to year end, the Company refinanced the Canadian unsecured credit facility with a new secured facility expiring in 2012, which is further described under "Events Subsequent to December 31, 2008". This refinancing, along with other financing initiatives completed or underway in 2009, address the majority of 2009 and 2010 debt maturities.

[2] The covenants on the unsecured debentures include the requirement for unencumbered assets totalling 1.30 times the gross book value of the outstanding debentures. This pool of unencumbered assets provides the Company with financing flexibilities on maturity on retirement of the debentures.

Mortgages, Loans and Credit Facilities

As at December 31, 2008, mortgages, loans and credit facilities increased primarily due to financing of acquisitions of shopping centres and development activities during the year.

(thousands of dollars) [1]	**2008**			2007
	Canada	U.S.	Total	Total
Fixed rate mortgages	**$ 1,210,568**	**$ —**	**$ 1,210,568**	$ 1,145,828
Secured term loans				
Floating rate hedged (with interest rate swaps)	**—**	**60,764**	**60,764**	39,536
Floating rate	**—**	**62,558**	**62,558**	88,440
Secured revolving credit facilities				
Floating rate	**—**	**30,450**	**30,450**	—
Unsecured revolving credit facilities				
Floating rate hedged (with interest rate swaps)	**50,000**	**—**	**50,000**	—
Floating rate	**134,586**	**24,604**	**159,190**	197,310
	$ 1,395,154	**$ 178,376**	**$ 1,573,530**	$ 1,471,114

[1] Amounts are presented net of financing costs and premiums and discounts.

The changes in the book value of the Company's debt during the year ended December 31, 2008 are set out below:

(thousands of dollars)	Fixed Rate Mortgages	Weighted Average Interest Rate	Secured Term Loans and Credit Facilities	Weighted Average Interest Rate	Unsecured Revolving Credit Facilities	Weighted Average Interest Rate	Total
Balance, December 31, 2007	**$ 1,145,828**	**6.32%**	**$ 127,976**	**6.33%**	**$ 197,310**	**6.05%**	**$ 1,471,114**
Additional borrowings, net of issue costs	153,220		59,284		340,204		552,708
Repayments	(63,936)		(55,321)		(333,016)		(452,273)
Principal instalment payments	(30,938)		(7,201)		—		(38,139)
Assumption of mortgages and vendor take-back mortgages	6,874		—		—		6,874
Effects of US dollar exchange rate and other changes [(1)]	(480)		29,034		4,692		33,246
Balance, December 31, 2008	**$ 1,210,568**	**6.21%**	**$ 153,772**	**5.31%**	**$ 209,190**	**2.96%**	**$ 1,573,530**

[(1)] *Includes amortization of issue costs, premiums and discounts.*

At December 31, 2008, 76.9% (2007 – 77.9%) of the outstanding mortgage, loan and credit facility liabilities bore interest at fixed interest rates. 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, 2008, in the aggregate amount of $1.211 billion as compared to $1.146 billion at the end of 2007. The increase in the outstanding balance is the net result of $160 million in new financings primarily from financing assumed on acquisitions, top-up financing on existing properties with mortgages and four new mortgages offset by $95 million in principal amortization and repayments. The average remaining term of the mortgages outstanding has declined from 5.6 years at December 31, 2007 to 5.2 years at December 31, 2008. This decrease is due primarily to the passage of time somewhat offset by the average term of the new mortgages.

Mortgage financing totalling $154.7 million was completed in 2008 with a weighted average rate of 5.54% and a weighted average term to maturity of 7.46 years.

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. This credit facility was refinanced subsequent to December 31, 2008. See the "Events Subsequent to December 31, 2008" section.

The U.S. dollar-denominated term loans and revolving credit facilities totalling Cdn$178.4 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 decreased from US$148.5 million at December 31, 2007 to US$146.7 million at December 31, 2008. The Company is in discussions with the primary U.S. lender and fully expects to refinance and extend the term of this debt from the current maturity date of July 2009 (extendible at the Company's option to June 2010). The Company also has a US$25 million revolving term credit facility with a U.S. financial institution. Draws under the facility bear interest at LIBOR plus 145 basis points. The revolving term facility matures in June 2010.

Mortgage Amortization Maturity Profile

(thousands of dollars)	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Interest Rate	Remaining Term
2009	$ 31,223	$ 60,477	$ 91,700	5.64%	
2010	30,530	111,188	141,718	6.26%	
2011	29,208	62,672	91,880	7.17%	
2012	27,150	108,785	135,935	6.96%	
2013	23,910	155,189	179,099	6.34%	
2014	17,759	200,796	218,555	6.33%	
2015	9,999	170,088	180,087	5.40%	
2016	6,303	36,540	42,843	5.44%	
2017	5,920	1,340	7,260	5.54%	
2018	3,626	85,053	88,679	6.20%	
Thereafter	7,905	25,740	33,645	6.58%	
Total	$ 193,533	$ 1,017,868	$ 1,211,401	6.21%	5.2

The Company's strategy is to manage its long-term debt by staggering maturity dates in order to mitigate short-term volatility in the debt markets. At December 31, 2008, the Company had mortgages aggregating $91.7 million coming due in 2009. Maturing amounts are comprised of $60.5 million of mortgages at an average interest rate of 5.64% and $31.2 million of scheduled amortization of principal balances. Subsequent to December 31, 2008, $27.2 million of the mortgages were paid out on maturity. New mortgages totalling $64.0 million were also subsequently completed as outlined in the "Events Subsequent to December 31, 2008" section. $8.2 million of U.S. term loans principal amortization is also payable in 2009.

The Company has interest rate swaps which it uses to reduce exposure to floating interest rates. The changes in fair value are recorded in other comprehensive income as the hedges are considered to be effective. The fair value of the interest rate swaps has decreased significantly during 2008 due to decreases in prevailing LIBOR and B.A. rates. These swaps are set out in the table below:

Type	Weighted Average Fixed Rate	Currency	Notional Amount (thousands)	Weighted Average Maturity (years)	Fair Value Cdn$ (millions)
B.A. – 30 day	4.27%	Cdn	$ 50,000	9.4	$ (8.7)
LIBOR – 3 month	4.54%	US	$ 50,000	6.7	$ (9.0)

A breakdown of mortgage maturities by type of lender is set out below.

	Payments Due On Maturity (thousands)	Percent with Banks	Percent with Conduits	Percent with Insurance Co's and Pension Funds
2009	$ 60,477	8.2%	42.0%	49.8%
2010	111,188	15.8%	14.5%	69.7%
2011	62,672	8.8%	67.1%	24.1%
2012	108,785	1.8%	71.3%	26.9%
2013	155,189	3.7%	45.3%	51.0%
2014	200,796	—	53.7%	46.3%
2015	170,088	—	46.6%	53.4%
2016	36,540	—	15.4%	84.6%
2017	1,340	100.0%	—	—%
2018	85,053	—	—	100.0%
Thereafter	25,740	—	—	100.0%
Total	$ 1,017,868	3.6%	41.7%	54.7%

Senior Unsecured Debentures

Senior Unsecured Debentures Maturity

(thousands of dollars)	Series A	Series B	Series C	Series D	Series E	Series F	Total
2011	$ —	$ 100,000	$ 100,000	$ —	$ —	$ —	$ 200,000
2012	100,000	—	—	—	—	—	$ 100,000
2013	—	—	—	97,000	—	—	$ 97,000
2014	—	—	—	—	100,000	100,000	$ 200,000
Coupon interest rate	5.08%	5.25%	5.49%	5.34%	5.36%	5.32%	5.31%
Effective interest rate	5.29%	5.51%	5.67%	5.51%	5.52%	5.47%	5.50%
Remaining term to maturity (years)	3.5	2.2	2.9	4.3	5.1	5.8	4.0

Convertible Debentures

(thousands of dollars)		2008			2007		
Interest Rate Coupon	Effective	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
5.50%	6.45%	**$ 83,000**	**$ 77,797**	**$ 2,503**	$ 83,000	$ 77,369	$ 2,503
5.50%	6.39%	**100,000**	**94,084**	**6,015**	100,000	93,593	6,015
5.50%	6.61%	**50,000**	**46,366**	**7,387**	50,000	46,068	7,387
5.50%	6.46%	**$ 233,000**	**$ 218,247**	**$ 15,905**	$ 233,000	$ 217,030	$ 15,905

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 can 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 can 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 2008, 600,661 common shares (2007 – 467,057) were issued to pay interest to holders of convertible debentures.

Shareholders' Equity

Shareholders' equity amounted to $1,096 million as at December 31, 2008, as compared to $951 million at the end of 2007. Shareholders' equity as at December 31, 2008 included $15.9 million (2007 – $15.9 million) representing the equity component of convertible debentures.

As at December 31, 2008, the Company had 90,002,581 (2007 – 79,681,929) issued and outstanding common shares with a stated capital of $1.5 billion (2007 – $1.2 billion). During fiscal 2008, a total of 10,320,652 common shares were issued as follows: 600,661 shares for interest payments on convertible debentures; 222,984 shares from the exercise of common share options and warrants; 71,959 shares from a private placement; 6,740,000 shares from public offerings and 2,685,048 common shares under the Company's dividend reinvestment plan ("DRIP").

The Company adopted a "DRIP" in May 2005 enabling Shareholders who qualified to elect to participate in the DRIP, to 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 its inception, the quarterly participation rate in the DRIP averaged 76%. On August 7, 2008, the Company announced that it was suspending the DRIP. Accordingly, any dividend payable to shareholders subsequent to that date, is not subject to the DRIP. The suspension is in effect unless and until further notice is given. The Company may consider from time to time reinstating the DRIP.

Shareholders' equity as at December 31, 2008 included accumulated other comprehensive losses of $33.8 million (2007 – $26.0 million), which primarily consisted of an unrealized currency translation adjustment in the amount of $12.8 million (2007 – $24.1 million) and the accumulated losses on cash flow hedges of interest rates of $12.2 million (2007 – $0.5 million). The accumulated unrealized currency translation adjustment 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, 2008 and 2007, respectively. The U.S. dollar exchange rate in effect at December 31, 2008 increased to US$1.00 = Cdn$1.22 from the exchange rate at December 31, 2007 of US$1.00 = Cdn$0.99. The impact of the increase in the foreign exchange rate on the net assets held in the United States resulted in a $11.3 million change in the unrealized currency translation adjustment.

Shareholders' equity as at December 31, 2008 included a deficit of $380.1 million (2007 – $304.4 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, 2008, the Company issued and had outstanding 2,958,631 share purchase options, with an average exercise price of $23.94. 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 purpose 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, 2008 were exercised, 2,958,631 shares would be issued and the Company would receive proceeds of approximately $71 million. This includes 2,635,431 options that were out of the money at December 31, 2008.

Liquidity

(thousands of dollars)	2008	2007
Revolving credit facilities		
Approved	$ 350,000	$ 350,000
Available	$ 350,000	$ 300,000
Cash drawn	$ 209,000	$ 197,000
Unencumbered assets available as defined by debt covenants	$ 1,482,000	$ 1,185,000
Other unencumbered real estate assets including properties under development	$ 236,000	$ 246,000
EBITDA	$ 259,821	$ 241,068
EBITDA margin [(1)]	60.7%	60.7%
EBITDA interest coverage [(1)]	2.20	2.07
EBITDA interest coverage excluding capitalized interest on development [(1)]	2.66	2.39

[(1)] Calculated, on a trailing basis, in accordance with the unsecured debentures indenture definitions for the period, excluding non-cash compensation.

Cash flow from operations is dependent on occupancy levels of properties, rental rates 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, 2008, this debt ratio was 52.5% based on the Company's calculation. Maturing debt is generally repaid from proceeds refinancing such debt, primarily in the current credit markets by financing unencumbered properties and when available at an acceptable cost, issuing convertible debentures or senior unsecured debentures.

Cash and cash equivalents were $7.3 million at December 31, 2008 (2007 – $10.5 million). At December 31, 2008 the Company had undrawn credit facilities totalling $141 million and had approved credit facilities totalling $350 million. The Company also had unencumbered assets with a gross book value of approximately $1.7 billion. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term.

Subsequent to year end, the Company refinanced its $350 million unsecured credit facility expiring in 2010 with a $450 million secured revolving credit facility expiring in 2012, which is detailed under "Events Subsequent to December 31, 2008".

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.

Cash Flows

(thousands of dollars)	**2008**	2007
Cash provided by operating activities	**$ 145,958**	$ 131,408
Cash used in investing activities	**(309,718)**	(443,771)
Cash provided by financing activities	**160,238**	316,979
Effect of currency rate movement	**334**	(975)
(Decrease) increase in cash and cash equivalents	**$ (3,188)**	$ 3,641

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 continued to make significant investments in its shopping centre portfolio. The overall level of investing activity in 2008 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 2008 is also lower than the prior year as a result of the lower level of acquisition activity in 2008.

Contractual Obligations

		Payments Due by Period			
(thousands of dollars)	Total	Less than 1 Year	1–3 Years	3–5 Years	More than 5 Years
Mortgages					
Scheduled amortization	$ 193,533	$ 31,223	$ 59,738	$ 51,060	$ 51,512
Payments on maturity	1,017,868	60,477	173,860	263,974	519,557
Total mortgage obligations	1,211,401	91,700	233,598	315,034	571,069
Canadian revolving credit facilities	209,190	—	209,190	—	—
U.S. term loans	123,596	8,222	115,374	—	—
U.S. revolving credit facilities	30,450	—	30,450	—	—
Senior unsecured debentures	597,000	—	200,000	197,000	200,000
Land leases	18,389	801	1,602	1,607	14,379
Estimated costs to complete current development and redevelopment projects	114,790	86,694	28,096	—	—
Total contractual obligations	$ 2,304,816	$ 187,417	$ 818,310	$ 513,641	$ 785,448

In addition, the Company has $20.0 million of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's obligations related to its development projects.

The Company's estimated costs to complete projects currently under development are $114.8 million. These contractual and potential obligations primarily consist of construction contracts and additional planned development expenditures and are expected to be funded from credit facilities as 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 2009 to 2013 and $14.4 million thereafter. Total minimum land-lease payments are $18.4 million. The leases expire between 2022 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, 2008, 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 $45.6 million (2007 – $46.7 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 2008, the Company paid regular dividends of $1.28 per common share (2007 – $1.26 per common share). The regular dividend payout ratio calculated as a percentage of Funds from Operations excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment per share was approximately 77% in 2008 compared to approximately 79% in 2007. The regular dividend payout ratio calculated as a percentage of Adjusted Funds from Operations was approximately 88% in 2008 compared to approximately 89% in 2007. The Company is currently paying a quarterly dividend of $0.32 per common share. Dividends declared totalled $112.6 million for the four quarters of 2008, of which $40.3 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:

(millions of dollars)	2008	2007
IFRS value of Shopping Centres and Development Properties	$ 3,918	$ 4,012
Canadian GAAP value of Shopping Centres and Development Properties [1]	3,366	3,121
Difference between IFRS value and Canadian GAAP value	552	891
Increase in future income taxes as a result of the difference in value	(98)	(159)
Difference in value, net of taxes	$ 454	$ 732

[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, 2008 approximately 62% (December 31, 2007 – 97%) 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 properties were appraised internally by Management. The appraisals were prepared to comply with the fair value model described in the IAS 40 – Investment Property and the International Valuation Standard.

The determination of which properties are externally appraised and which are internally appraised by Management is based on a combination of factors, including: property size, the level of redevelopment and leasing activity, local market conditions as well as ensuring that there is a representative sample of properties from each market in which the Company operates. In addition, Management ensures that each property in the portfolio is externally appraised at least once every three years. The properties appraised by Management in 2008 consisted primarily of stable properties with high occupancy rates, as well as the smallest properties in the portfolio. In completing the internal appraisals, Management used capitalization rate information obtained from the appraisals completed by the external appraisers for comparable properties in the same markets. In addition, for the properties internally appraised, Management used the last external appraisal completed for the property (either at June 30, 2008 or September 30, 2008), and made updates based upon material leasing activity and material changes in local market conditions.

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 appraiser's estimate of the relationship between value and stabilized income, normally in the first year and b) a discounted cash flow method, which is the appraiser's 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, 2008 and 2007 were 7.38% and 6.56%, respectively.

QUARTERLY FINANCIAL INFORMATION

(thousands of dollars, except per share and other data)	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Property rental revenue	**105,695**	**100,830**	**101,905**	**101,762**	96,643	96,192	93,547	90,509
Property operating costs	**38,163**	**35,752**	**37,864**	**38,822**	32,832	34,467	33,335	33,812
Net operating income	**67,532**	**65,078**	**64,041**	**62,940**	63,811	61,725	60,212	56,697
Equity income (loss) from Equity One	**1,405**	**(1,506)**	**5,007**	**3,810**	4,455	2,253	3,241	4,426
Net income	**10,652**	**8,249**	**10,168**	**8,361**	9,252	6,940	6,286	7,875
Basic earnings per share	**$ 0.12**	**$ 0.09**	**$ 0.12**	**$ 0.10**	$ 0.12	$ 0.09	$ 0.08	$ 0.10
Diluted earnings per share	**$ 0.12**	**$ 0.09**	**$ 0.12**	**$ 0.10**	$ 0.12	$ 0.09	$ 0.08	$ 0.10
Weighted average diluted shares outstanding – EPS	**90,423,576**	**90,021,640**	**87,269,113**	**81,363,323**	80,002,983	79,000,640	77,904,479	76,791,907
Funds from operations	**37,760**[(1)]	**38,519**[(1)]	**34,496**	**34,308**	32,904	31,364	30,049	31,039
Funds from operations/ share diluted	**$ 0.42**[(1)]	**$ 0.43**[(1)]	**$ 0.40**	**$ 0.42**	$ 0.41	$ 0.40	$ 0.39	$ 0.40
Weighted average diluted shares outstanding – FFO	**90,423,576**	**90,021,640**	**87,269,113**	**81,363,323**	80,002,983	79,000,640	77,904,479	76,791,907
Dividend	**$ 0.32**	**$ 0.32**	**$ 0.32**	**$ 0.32**	$ 0.32	$ 0.32	$ 0.31	$ 0.31
Total assets	**3,720,262**	**3,612,347**	**3,501,548**	**3,486,660**	3,409,409	3,348,651	3,292,004	3,211,714
Total mortgages, loans and credit facilities	**1,573,530**	**1,487,640**	**1,434,709**	**1,438,650**	1,471,114	1,418,216	1,365,626	1,448,441
Shareholders' equity	**1,095,806**	**1,123,880**	**1,068,934**	**1,064,767**	951,331	943,551	938,159	920,226
Other Data								
Number of properties	**171**	**171**	**168**	**164**	161[(2)]	163	163	161
Gross leasable area	**20,050,000**	**19,611,000**	**19,326,000**	**19,344,000**	19,382,000	19,161,000	19,017,000	18,884,000
Occupancy %	**96.0%**	**95.8%**	**95.5%**	**95.5%**	95.3%	95.0%	95.0%	95.0%

(1) Q3 and Q4 exclude non-cash impairment losses recorded by Equity One and Q4 excludes a dilution gain on Equity One investment.
(2) The Company combined certain properties for reporting purposes in the fourth quarter of 2007.

The growth over the eight quarters in 2007 and 2008 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 2007 and the first three quarters in 2008. A discussion of the fourth quarter of 2008 follows.

FOURTH QUARTER 2008 OPERATIONS AND RESULTS

Acquisition and Development

During the fourth quarter of 2008, the Company acquired one income-producing shopping centre comprising 35,000 square feet located in Victoria, BC. The acquisition amount of $10.6 million, including closing costs, was paid in cash.

In the fourth quarter of 2008, 474,900 square feet of development and redevelopment space came on line in the following shopping centres:

Property Name	City	Province	Square Feet	Major Tenants
Development of new gross leasable area [2]				
Westmount Shopping Centre	Edmonton	AB	87,000	Home Depot
Carrefour St. Hubert [1]	Longueuil	QC	63,800	SAQ, Super C
Brantford Mall [1]	Brantford	ON	50,000	Dollar Giant, Cineplex
Centre Commercial Beaconsfield [1]	Beaconsfield	QC	42,800	Metro
Morningside Crossing [1]	Toronto	ON	41,700	Mark's Work Wearhouse, LCBO, GoodLife Fitness
Marche du Vieux Longueuil [1]	Longueuil	QC	39,000	Metro
Barrymore Building [1]	Toronto	ON	30,800	Knoll, West Elm
South Fraser Gate [1]	Abbotsford	BC	17,800	Shoppers Drug Mart
Towerlane Mall [1]	Airdrie	AB	15,700	TD Bank
Carrefour St. David [1]	Quebec City	QC	14,400	McDonalds
Parkway Centre	Peterborough	ON	12,200	Addition Elle
Other space – various projects			47,700	
			462,900	
Redevelopment of existing gross leasable area				
Other space – various projects			12,000	
Total			474,900	

[1] *Constructed in accordance with Leadership in Energy and Environmental Design (LEED) certificate guidelines.*
[2] *Includes new space created in redevelopment properties and greenfield developments.*

Development of 462,900 square feet was brought on line in the fourth quarter of 2008, with 460,700 square feet leased at an average rate of $19.56 per square foot. The Company also reopened 12,000 square feet of redeveloped space at an average rate of $22.11 per square foot.

In addition to acquisitions of income-producing properties and development assets, the Company invested $87.0 million during the fourth quarter in its active development projects as well as in certain improvements to existing properties.

Gross new leasing in the fourth quarter of 2008 totalled 593,000 square feet including development and redevelopment space coming on line. The Company achieved a 15.4% increase on 506,600 square feet of renewal leases over the expiring rates. Portfolio occupancy at December 31, 2008 increased to 96.0% from 95.8% at September 30, 2008. Properties acquired during the fourth quarter had an average lease rate per square foot of $20.18 and occupancy of 100%. The average rate per occupied square foot at December 31, 2008 increased to $15.10 from $14.84 at September 30, 2008.

Funds from Operations

The Company's GAAP net income is reconciled to FFO below:

	Three months ended	
(thousands of dollars)	December 31, 2008	December 31, 2007
Net income for the period	$ 10,652	$ 9,252
Add (deduct):		
Amortization of shopping centres, deferred costs and intangible assets	21,245	20,302
Gain on disposition of income-producing shopping centre	(1,631)	—
Equity income from Equity One	(1,405)	(4,455)
FFO from Equity One	3,753	4,116
Future income taxes	7,021	3,689
FFO	39,635	32,904
Add: the Company's share of Equity One's non-cash impairment loss	1,023	—
Deduct: dilution gain on Equity One investment	(2,898)	—
FFO excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	$ 37,760	$ 32,904

The components of FFO are:

	Three months ended	
(thousands of dollars, except per share amounts)	December 31, 2008	December 31, 2007
Net operating income	$ 67,532	$ 63,811
Interest expense	(28,621)	(28,882)
Interest and other income	2,797	469
Corporate expenses	(5,614)	(5,165)
Funds from operations from Equity One	3,753	4,116
Amortization	(592)	(1,077)
Current income taxes	380	(368)
FFO	39,635	32,904
Add: the Company's share of Equity One's non-cash impairment loss	1,023	—
Deduct: dilution gain on Equity One investment	(2,898)	—
FFO excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	$ 37,760	$ 32,904
FFO per diluted share	$ 0.44	$ 0.41
Add: the Company's share of Equity One's non-cash impairment loss	0.01	—
Deduct: dilution gain on Equity One investment	(0.03)	—
FFO per diluted share excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	$ 0.42	$ 0.41
Weighted average diluted shares – FFO	90,423,576	80,002,983

The Company's funds from operations for the three months ended December 31, 2008 totalled $39.6 million or $0.44 per diluted common share. This included $3.8 million representing the Company's share of FFO from Equity One for the fourth quarter. The FFO reported by Equity One included a non-cash impairment loss on certain development assets. The Company's share of this loss was $1.0 million or $0.01 per diluted common share for the quarter. In addition, the Company recorded a one time dilution gain on its investment in Equity One of $2.9 million. Excluding these items, FFO was $37.8 million or $0.42 per diluted common share, compared to $32.9 million or $0.41 per diluted common share in the same period in 2007. The increase in FFO excluding the impairment loss and dilution gain was primarily due to an increase in NOI resulting from development projects coming on line, and same property NOI growth, partially offset by increased corporate expenses. In addition, there was an increase in the diluted number of common shares outstanding compared to the same prior year period.

Adjusted Funds from Operations

	Three months ended	
(thousands of dollars, except per share amounts)	**December 31, 2008**	December 31, 2007
FFO excluding Equity One's non-cash impairment loss and dilution gain	$ 37,760	$ 32,904
Add/(deduct):		
Rental revenue recorded on a straight-line basis and market rent adjustments	(1,461)	(2,091)
Non-cash compensation expense	928	1,142
Interest expense payable in shares	3,540	3,595
Change in cumulative unrealized losses (gains) on marketable securities	850	(273)
Dividend income – return of capital portion	409	21
Non-cash gain on extinguishment of debt	(438)	—
Funds from operations from Equity One excluding non-cash impairment loss	(4,776)	(4,116)
Dividends from Equity One (regular)	5,145	4,159
Gain on termination of hedge	290	—
Gain on disposition of land	(3)	—
Revenue sustaining capital expenditures and leasing costs	(4,779)	(2,551)
AFFO	$ 37,465	$ 32,790
AFFO per diluted share	$ 0.38	0.37
Weighted average diluted shares for AFFO [1]	99,053,205	88,807,137

[1] *Includes the weighted average outstanding shares that would result from the conversion of the convertible debentures.*

For the three months ended December 31, 2008, AFFO rose 14.3% to $37.5 million from $32.8 million in the same period in 2007.

A reconciliation from cash provided by operating activities (a GAAP measure) to AFFO is presented below:

	Three months ended	
(thousands of dollars)	**December 31, 2008**	December 31, 2007
Cash provided by operating activities	**$ 59,864**	$ 50,284
Realized losses on sale of marketable securities	**(160)**	(238)
Dividend income – return of capital portion	**409**	21
Deferred leasing costs	**1,021**	702
Net change in non-cash operating items [(1)]	**(22,565)**	(20,062)
Settlement of restricted share units	**1,275**	1,826
Amortization of other assets	**(366)**	(264)
Amortization of financing fees	**(226)**	(813)
Interest paid in excess of coupon interest on assumed mortgages	**294**	507
Debenture interest in excess of coupon	**(225)**	(210)
Other non-cash interest expense	**(617)**	(7)
Convertible debenture interest payable in common shares	**3,540**	3,595
Revenue sustaining capital expenditures and leasing costs	**(4,779)**	(2,551)
AFFO	**$ 37,465**	$ 32,790

[(1)] *A realized gain on an interest rate swap of $290,000 is included in the AFFO calculation.*

Net Income

	Three months ended	
(thousands of dollars, except per share amounts)	**December 31, 2008**	December 31, 2007
REVENUE		
Property rental revenue	**$ 105,695**	$ 96,643
Interest and other income	**4,428**	469
	110,123	97,112
EXPENSES		
Property operating costs	**38,163**	32,832
Interest expense	**28,621**	28,882
Amortization	**21,837**	21,379
Corporate expenses	**5,614**	5,165
	94,235	88,258
Equity income from Equity One	**1,405**	4,455
Income before income taxes	**17,293**	13,309
Income taxes		
Current (recovery)	**(380)**	368
Future	**7,021**	3,689
	6,641	4,057
Net income	**$ 10,652**	$ 9,252
Earnings per common share		
Basic	**$ 0.12**	$ 0.12
Diluted	**$ 0.12**	$ 0.12

Acquisitions during 2008, combined with the full impact of acquisitions in the prior year, contributed $3.3 million to NOI in the quarter, while development and redevelopment activities contributed a further $6.8 million. Same property NOI increased 3.7%, generating growth of $2.1 million in the three months ended December 31, 2008, over the fourth quarter of 2007, due primarily to redevelopment and expansion space and increases in lease rates and occupancy. Same property NOI in the fourth quarter of 2008, excluding expansion or redevelopment space, increased by $0.9 million or 1.7% over the same prior year period.

Interest and other income increased due primarily to the $2.9 million dilution gain on the investment in Equity One. The decrease in the equity income in 2008 is primarily due to impairment losses recorded by Equity One in the fourth quarter as well as a decline in Equity One's net operating income.

EVENTS SUBSEQUENT TO DECEMBER 31, 2008

Completion of Mortgages

Since January 1, 2009 the Company has completed $64 million in mortgage financing on three properties and a top up of an existing mortgage. This financing carries a weighted average interest rate of 5.95% and has a weighted average term of 7.58 years.

Completion of a three year, $75,000,000 Secured Revolving Credit Facility

On January 29, 2009, the Company closed on a three year, $75 million secured revolving credit facility with the Bank of Nova Scotia.

Investment in Allied Properties Real Estate Investment Trust

On February 9, 2009 the Company announced it had agreed to acquire from institutional investors an aggregate of 1,766,800 units ("Units") of Allied Properties REIT in exchange for common shares of First Capital Realty at a ratio of 0.81 First Capital Realty shares per Unit. The acquisitions closed February 17, 2009. Together with the Units owned by the Company that were acquired with cash, First Capital Realty owns 3,453,100 Units, representing approximately 11% of the issued and outstanding Units.

The Units have been acquired for investment purposes; however, First Capital Realty has indicated to Allied that it would like to engage in discussions with Allied to explore business opportunities, which may or may not result in a business combination; at this time no such discussions are underway. First Capital Realty does not currently intend to initiate a formal take-over bid for Allied. First Capital Realty may, in the future, take such actions in respect of its holdings as it may deem appropriate in light of the circumstances then existing, including the purchase of additional securities of Allied through open market purchases or privately negotiated transactions, or the sale of all or a portion of its holdings in the open market or in privately negotiated transactions to one or more purchasers.

Interest on Convertible Debentures

On February 18, 2009, the Company announced that it will pay the interest due on March 31, 2009 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, 2009. The interest payment due is approximately $6.4 million.

It is the current intention of the Company to satisfy its obligations to pay principal and interest on its 5.50% debentures by the issuance of common shares. Since issuance, all interest payments have been made using shares.

Completion of a three year, $450,000,000 Secured Revolving Credit Facility
On March 5, 2009 the Company closed a three year, $450 million Secured Revolving Credit Facility with a syndicate of ten banks jointly led by RBC Capital Markets, TD Securities, and BMO Capital Markets. The syndicate consists of seven Canadian Banks and three Schedule III Chartered Banks. The new facility was used to replace the Company's existing three year $350 million Senior Unsecured Revolving Credit Facility maturing March 2010. The facility's initial funding was at an interest rate of 4.16%.

Quarterly Dividend
The Company announced that it will pay a first quarter dividend of $0.32 per common share on April 14, 2009 to shareholders of record on March 27, 2009.

Current Outstanding Share Data
As at March 5, 2009, 91,441,689 common shares were issued and outstanding. There were no material changes since December 31, 2008, other than as described above in the amount of options, warrants or convertible debentures outstanding.

OUTLOOK

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. See our forward-looking statement disclaimer on page 17 of this annual report.

2009 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 while enhancing the quality of its portfolio.

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, and equity and debt capital can be priced and committed to maintain conservative leverage.

Development and redevelopment activities continue to provide the Company with opportunities to grow within its existing portfolio of assets.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 increasing cost and scarcity of capital.

Specifically, Management will focus on the following four areas to achieve its objectives in 2009:

- same property net operating income growth, taking into account maintaining high occupancy;
- development and redevelopment activities;
- increasing efficiency and productivity of operations; and
- careful capital allocation to decrease dependence on capital markets.

Overall, Management is confident that the quality of the Company's balance sheet, the defensive nature of its assets and operations will continue to serve it well in the current environment.

Guidance

Readers should refer to the Company's 2008 year end press release dated March 5, 2009 as filed on SEDAR at www.sedar.com for a discussion of the Company's previously issued 2008 specific guidance as compared with actual results for 2008.

The purpose of the Company's guidance was to provide readers with Management's view as to the expected financial performance of the Company, using factors that are commonly accepted and viewed as meaningful indicators of financial performance in the real estate industry. Given the current environment, the Company intends to issue 2009 specific guidance, at the earliest, in its first quarter earnings release.

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 judgement are those outlined below.

Fair Value

Fair value is defined as the amount at which an item can be bought or sold between independent, knowledgeable parties under no compulsion to act, as opposed to a forced or liquidation sale.

Quoted market prices in active markets are usually the best evidence of fair value when they are available. Market prices are usually available for marketable securities and other actively traded financial instruments owned by the Company. When quoted market prices are not available, estimates of fair value are based on the best information available, including comparable market data and other valuation techniques, including discounted cash flows and other models based on future cash flows.

Where the valuation method chosen is based on future cash flows, the Company would be required to make estimates that incorporate assumptions of economic conditions, local market conditions, the potential uses of assets and other factors.

As a result, the Company's determination of fair value could vary under differing circumstances and result in different calculations.

The most significant areas which are affected by fair value estimates in the Company's financial statements are:

- allocations of purchase price on property acquisitions;
- estimates of fair value of assets when assessing potential impairments;
- valuation of financial instruments both for disclosure and measurement purposes; and
- valuation of stock options using the Binomial Method.

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 judgements as well as third-party appraisals to determine the following:

- The fair value of land as of the acquisition date.
- The value of the depreciated replacement cost of buildings as of the acquisition date based on prevailing construction costs for buildings of a similar class and age.
- The value of the above- and below-market leases based on the present value of the difference between the rents payable under the terms of the in-place leases and estimated market rents.
- The value of deferred leasing costs, including tenant improvements, at depreciated replacement cost based on estimates of prevailing construction costs, taking into account the condition of tenants' premises and year of improvement.
- The value of lease origination costs based on estimates of the costs that would be required for the existing leases to be put in place under the same terms and conditions. These costs include leasing commissions, foregone rent and operating cost recoveries during an estimated lease-up period.

- The value of the tenant relationships, if any, based on the net costs avoided if the tenants were to renew their leases at the end of the existing term, and the probability that the tenants will renew.
- The fair value of debt assumed on acquisition by reference to prevailing market interest rates.

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

Impairment of Assets

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

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

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

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

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

In assessing impairment of the income-producing shopping centres, Management makes use of the property appraisals completed by both external appraisers and internally for the purposes of International Financial Reporting Standards.

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 senior unsecured debentures is based on closing bid spreads and current underlying Government of Canada bond yields. 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.

Income Taxes

The Company exercises judgement in estimating future income tax assets and liabilities. Income tax laws are potentially subject to different interpretations, and the income tax expense recorded by the Company reflects the Company's interpretation of the relevant tax laws. The Company is also required to estimate the timing of reversals of temporary differences between accounting and taxable income in determining the appropriate rate to apply in calculating future income taxes.

SUMMARY OF CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

(a) **Current accounting policy changes**

Effective January 1, 2008, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). They include *Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures;* and *Section 3863, Financial Instruments – Presentation*. As the standards relate primarily to disclosure, there was no impact on the Company's financial position or results of operations.

(i) *Capital Disclosures – CICA Section 1535*

On December 1, 2006, the CICA issued Handbook *Section 1535 Capital Disclosures*. Section 1535 specifies additional disclosures required regarding the Company's management of capital.

(ii) *Financial Instruments – Disclosures and Presentation – CICA Sections 3862 and 3863*

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*, enhancing disclosure requirements.

(b) **Future accounting policy changes**

(i) *Goodwill and Intangible Assets – CICA Section 3064*

On January 31, 2008, the CICA issued a new accounting standard: Handbook *Section 3064 Goodwill and Intangible Assets* which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. 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 and will be adopted on a retroactive basis with restatement of prior years. As a result of applying this standard, the Company will no longer defer recoverable costs and match the expense to the period over which the costs are recovered from the tenants. The standard requires that the expenditure is either capitalized or expensed in the period it is incurred, based upon the nature of the expenditure.

The effect on the Company's 2008 Financial Statements is as follows:

Effect on the balance sheet as at December 31, 2008 *(thousands of dollars)*		Increase (decrease)
Shopping centres	$	13,400
Other assets	$	(11,500)
Shareholders' Equity	$	1,900

Effect on the statement of income for the year ended December 31, 2008 *(thousands of dollars)*		Increase (decrease)
Property operating costs	$	(600)
Building amortization expense	$	400
Net income	$	200
Earnings per share (basic and diluted)	$	—

(ii) *Future adoption of IFRS in Canada*

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective for fiscal periods beginning on or after January 1, 2011. The Canadian Securities Administrators have provided issuers with the option of early adopting IFRS for Canadian reporting purposes. The Company does not intend to early adopt IFRS at this time.

The Company's changeover plan includes the following elements:

- a comprehensive inventory of IFRS and Canadian GAAP differences that affect the Company;
- internal training requirements;
- an assessment of the system and technology requirements;
- changes and additions to internal controls over financial reporting; and
- resource requirements as well as impacts on the business groups and operations.

The Company's major shareholder, Gazit-Globe, currently reports under IFRS. As a result, the Company is leveraging its experience in preparing IFRS/Canadian GAAP reconciliations for Gazit Globe.

During 2009, the Company expects to:

- complete its staff training requirements;
- complete the development of its property valuation strategy;
- complete the assessment of systems and technology requirements;
- evaluate the impact on its business activities; and
- continue to communicate the progress of its implementation to key stakeholders, including employees, shareholders, rating agencies, bondholders and analysts.

The Company also continues to revisit its implementation plan, as the International Accounting Standards Board continues to issue new standards.

The Company is still considering whether to adopt the fair value method of accounting for its investment properties as well as other accounting policy choices allowable on the initial adoption of IFRS.

(iii) Business Combinations

In January 2009, the CICA issued new accounting standards: Handbook *Section 1582 – Business Combinations*, Handbook *Section 1602 – Non-controlling Interests* and Handbook *Section 1601 – Consolidated Financial Statements*, which are based on the IASB's International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards shall not be adjusted upon application of these new standards. The Non-controlling Interests standard should be applied retrospectively except for certain items.

The Company is assessing whether it will apply the new accounting standards at the beginning of its 2011 fiscal year or elect to early adopt the new accounting standards at the beginning of its 2010 fiscal year in order to minimize the amount of restatement when the Company adopts International Financial Reporting Standards ("IFRS"). The impact of the new standards on the Company's results of operations, financial position and disclosures will be assessed as part of the Company's IFRS transition project.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

First Capital Realty's 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 is 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 National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2008, 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 and effectiveness of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the year ended December 31, 2008. 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 and operating effectively.

The Company did not make any material changes to the design of internal controls over financial reporting during the year ended December 31, 2008 that have had, or are reasonably likely to have, 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 current Annual Information Form provides a more detailed discussion of these and other risks and can be found on SEDAR at www.sedar.com and the Company's website at 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 57% of the Company's annualized minimum rent from its Canadian portfolio as at December 31, 2008.

	Tenant	Number of Stores	Square Feet	Percent of Total Canadian Gross Leasable Area	Percent of Total Canadian Annualized Minimum Rent	DBRS Organization Credit Rating	S&P [1] Organization Credit Rating	Moody's Organization Credit Rating
Top Forty Tenants								
1	Sobeys	45	1,553,000	7.7%	7.1%	BBB (LOW)	BB+	
2	Shoppers Drug Mart	56	744,000	3.7%	5.6%	A (LOW)	BBB+	Ba1
3	Loblaws	26	1,412,000	7.0%	5.5%	BBB	BBB	
4	Metro	30	1,128,000	5.6%	4.7%	BBB	BBB	
5	Zellers/Home Outfitters	19	1,717,000	8.6%	3.8%			
6	Canadian Tire	22	799,000	4.0%	3.5%	A (LOW)	BBB+	
7	TD Canada Trust	35	181,000	0.9%	1.9%	AA	AA–	Aaa
8	Canada Safeway	9	409,000	2.0%	1.7%	BBB	BBB	Baa2
9	Royal Bank	29	159,000	0.8%	1.4%	AA	AA–	Aaa
10	Wal-Mart	4	473,000	2.4%	1.2%	AA	AA	Aa2
11	Bank Of Nova Scotia	21	115,000	0.6%	1.1%	AA	AA–	Aa1
12	CIBC	23	113,000	0.6%	1.0%	AA	A+	Aa2
13	Staples	10	232,000	1.2%	1.0%		BBB	Baa1
14	Rona	2	257,000	1.3%	1.0%	BBB	BBB–	
15	HY Louie Group (London Drugs)	8	210,000	1.0%	1.0%			
16	LCBO	14	122,000	0.6%	0.9%	AA	AA	Aa1
17	Goodlife Fitness Club	8	180,000	0.9%	0.9%			
18	Rexall	15	124,000	0.6%	0.9%			
19	Cara Operations	26	100,000	0.5%	0.8%			
20	Dollarama	20	181,000	0.9%	0.8%		B+	
21	Rogers	28	100,000	0.5%	0.8%	BBB	BBB–	Aa2
22	Winners Merchants Inc.	5	177,000	0.9%	0.8%		A	A3
23	Save On Foods	4	178,000	0.9%	0.7%			
24	Bank Of Montreal	19	85,000	0.4%	0.7%	AA	A+	Aa1
25	Blockbuster	21	104,000	0.5%	0.7%		B–	Caa2
26	Reitmans	32	161,000	0.8%	0.8%	BBB	BBB–	Baa3
27	Tim Hortons	34	96,000	0.5%	0.7%		B+	Ba2
28	SAQ	18	77,000	0.4%	0.8%	A	A+	Aa2
29	Future Shop	5	140,000	0.7%	0.6%		BBB	Baa2
30	Starbucks	30	48,000	0.2%	0.6%		BBB+	Baa1
31	Yum! Brands	27	57,000	0.3%	0.6%		BBB+	Baa2
32	Home Depot	2	219,000	1.1%	0.5%	A (LOW)		
33	Subway	48	58,000	0.3%	0.5%			
34	Forzani Group	7	88,000	0.4%	0.5%			
35	Toys "R" Us (Canada) Ltd.	3	113,000	0.6%	0.4%		B	B3
36	Michael's Arts & Crafts	4	87,000	0.4%	0.4%		B–	B2
37	Pharmacie Jean Coutu	7	97,000	0.5%	0.4%			
38	McDonalds	17	48,000	0.2%	0.4%		A	A3
39	The Source By Circuit City	24	53,000	0.3%	0.3%			
40	Uniprix	6	58,000	0.3%	0.3%			
Total: Top 40 Tenants		**763**	**12,253,000**	**61.1%**	**57.3%**			

[1] *Standard and Poor's.*

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 fulfill its existing commitments under leases up to the expiry date. The failure to fulfill 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 5.6% to 10.4% of the annualized minimum rent in the Company's portfolio.

The Company's lease maturity profile at December 31, 2008 is as follows:

Date [1]	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	201	592,000	3.0%	$ 9,533,000	3.1%	$ 16.10
2009	414	1,319,000	6.6%	22,830,000	7.4%	17.31
2010	440	1,345,000	6.7%	22,794,000	7.4%	16.94
2011	406	1,580,000	7.9%	23,412,000	7.6%	14.82
2012	446	1,807,000	9.0%	32,094,000	10.4%	17.76
2013	428	1,944,000	9.7%	31,874,000	10.3%	16.39
2014	184	1,169,000	5.8%	18,438,000	6.0%	15.77
2015	158	1,276,000	6.4%	20,047,000	6.5%	15.71
2016	123	1,173,000	5.8%	17,384,000	5.6%	14.82
2017	143	1,271,000	6.3%	20,429,000	6.6%	16.07
2018	150	1,408,000	7.0%	23,163,000	7.5%	16.45
2019	31	718,000	3.6%	9,877,000	3.2%	13.75
Thereafter	130	3,657,000	18.2%	57,993,000	18.4%	15.87
Total/Average	**3,254**	**19,259,000**	**96.0%**	**$ 309,868,000**	**100.0%**	**$ 16.09**

[1] *Excluding any contractual renewal options.*

Financing and Repayment of Indebtedness

The Company has outstanding indebtedness in the form of mortgages, loans, 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. The current credit environment is characterized by lenders that have suffered losses as well as overall weakening of the economy. As a result, lenders may not have access to capital and may tighten their lending requirements, making it more difficult for the Company, in turn, to access this capital. The current environment has increased the difficulty of refinancing debt obligations. The Company may elect to repay certain indebtedness through the issuance of equity securities or the sale of assets, where appropriate. The Company's strategy of spreading the maturities of its debt is also helpful in mitigating its exposure to interest rate fluctuations. Subsequent to year end the Company completed the refinancing of its credit facilities as well as additional mortgage financing as described under the "Events Subsequent to December 31, 2008" section of this MD&A.

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 $32.1 million at December 31, 2008, 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, 2008 the allowance for doubtful accounts related to straight-line rent receivables totalled $5.3 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 therefrom.

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 and Domestic Equity Investments and Borrowings

The Company holds a significant equity investment in Equity One and Allied Properties REIT and may acquire investments in other U.S. or Canadian 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.

SHARE PRICE AND DIVIDEND HISTORY

	2008	2007	2006	2005
Average Closing Share Price				
1st Quarter	$ 22.35	$ 27.73	$ 23.69	$ 19.74
2nd Quarter	$ 23.16	$ 27.25	$ 23.96	$ 19.42
3rd Quarter	$ 22.23	$ 25.77	$ 24.15	$ 20.89
4th Quarter	$ 18.48	$ 25.10	$ 26.24	$ 21.51
Closing price, end of year	$ 18.97	$ 24.02	$ 27.78	$ 23.00
Dividend History (per Common Share)				
1st Quarter	$ 0.32	$ 0.31	$ 0.30	$ 0.30[1]
2nd Quarter	$ 0.32	$ 0.31	$ 0.31	$ 0.30
3rd Quarter	$ 0.32	$ 0.32	$ 0.31	$ 0.30
4th Quarter	$ 0.32	$ 0.32	$ 0.31	$ 0.30
Total	$ 1.28	$ 1.26	$ 1.23	$ 1.20
Dividend Yield on Average Closing Price (end of period annualized dividend)	6.93%	5.10%	4.73%	5.58%

[1] *Amount represents the regular dividend. A special dividend of $0.20 was paid in addition to the regular dividend.*

Shopping Centre Portfolio

PROPERTY	LOCATION	YEAR BUILT OR ACQUIRED	GROSS LEASABLE AREA	PERCENT OCCUPIED	ANCHORS AND MAJOR TENANTS
ONTARIO					
1842-1852 Queen Street West	Toronto	2006	14,000	97.3%	Starbucks
216 Elgin	Ottawa	**2008**	12,000	100.0%	Harvey's, Second Cup
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	97.1%	Fortino's (Loblaws), Pharma Plus, LCBO, Bank of Montreal, TD Canada Trust, Home Hardware
Bayview Lane Plaza	Markham	2003	38,000	82.6%	Bank of Montreal, Planet Organic
Bowmanville Mall	Bowmanville	2005	123,000	97.3%	Metro, 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	285,000	100.0%	Zehrs (Loblaws), Wal-Mart, Cineplex, LCBO, Reitmans
Bridgeport Plaza	Waterloo	1994	222,000	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	91.4%	No Frills (Loblaws), Pharma Plus, Tim Hortons
Byron Village	London	2002	89,000	97.9%	Metro, Pharma Plus, LCBO, TD Canada Trust, Rogers Video
Cedarbrae Mall	Toronto	1996	508,000	99.0%	Loblaws, Zellers, Canadian Tire, Toys 'R' Us, LCBO, Scotia Bank, CIBC, Extreme Fitness, Dollarama, The Beer Store, Burger King
Chartwell Shopping Centre	Toronto	2005	168,000	91.6%	Price Chopper (Sobeys), Shoppers Drug Mart, CIBC, Bank of Montreal
Chemong Park Plaza	Peterborough	2001	68,000	100.0%	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 [3]	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	100.0%	No Frills, Pharma Plus, CIBC, TD Canada Trust, Rogers Video, Tim Hortons
Delta Centre	Cambridge	1998	79,000	100.0%	Price Chopper (Sobeys), Dollarama, Shoppers Home Health Care, Starbucks
Derry Heights Plaza	Milton	**2008**	49,000	100.0%	Pure Health and Fitness
Dufferin Corners	Toronto	2003	74,000	99.2%	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	50,000	89.0%	Shoppers Drug Mart, Rogers Video, The Beer Store, TD Canada Trust, Starbucks
Fairview Mall	St. Catharines	1994	390,000	99.5%	Food Basics (Metro), Zehrs [1] (Loblaws), Zellers, Office Depot, Future Shop, Winners, Mark's Work Wearhouse, LCBO, CIBC, Scotiabank, Sport Chek, Costco
Fairway Plaza	Kitchener	2005	246,000	98.1%	Food Basics (Metro), Winners/Home Sense, Sport Chek, Pier 1 Imports, Dollarama, GoodLife Fitness, Starbucks
Gloucester City Centre	Ottawa	2003	345,000	95.5%	Loblaws, Zellers, Pharma Plus, Scotiabank, CIBC, Tim Hortons
Grimsby Square Shopping Centre	Grimsby	2005	153,000	99.6%	Sobeys, Canadian Tire, Shoppers Drug Mart, Royal Bank of Canada, Mark's Work Wearhouse, The Beer Store, McDonalds

PROPERTY	LOCATION	YEAR BUILT OR ACQUIRED	GROSS LEASABLE AREA	PERCENT OCCUPIED	ANCHORS AND MAJOR TENANTS
ONTARIO (cont'd)					
Halton Hills Village	Georgetown	2007	104,000	96.9%	Metro, TD Canada Trust, Tim Hortons
Harwood Plaza	Ajax	1999	219,000	98.8%	Food Basics (Metro), Shoppers Drug Mart, Scotiabank, Blockbuster, GoodLife Fitness, Tim Hortons, Dollarama
Humbertown Shopping Centre	Toronto	2006	141,000	97.3%	Loblaws, Scotiabank, Blockbuster, LCBO, Shoppers Drug Mart, Royal Bank of Canada
Hyde Park Plaza	London	2006	52,000	96.1%	Remark Farm, Shoppers Drug Mart, Bank of Montreal, Starbucks
Laurelwood Shopping Centre	Waterloo	2007	90,000	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	98.8%	Sobeys, Pharma Plus, CIBC, Rogers Video, Tim Hortons, The Beer Store
McLaughlin Corners (3)	Brampton	2002	116,000	99.0%	Metro, Shoppers Drug Mart, Royal Bank of Canada, Rogers Video, Pizza Hut
Meadowvale Town Centre	Mississauga	2003	380,000	97.9%	Metro, Canadian Tire, Shoppers Drug Mart, LCBO, TD Canada Trust, CIBC, Bank of Montreal, Blockbuster, Tim Hortons, Premier Fitness
Merchandise Building	Toronto	2004	52,000	74.2%	Metro
Midland Lawrence Plaza	Toronto	2002	81,000	94.8%	Price Chopper (Sobeys), Part Source (Canadian Tire), TD Bank
Morningside Crossing	Toronto	2007	160,000	99.6%	Shoppers Drug Mart, TD Canada Trust, CIBC, Scotiabank, Bank of Montreal, Starbucks, Pizza Hut, Blockbuster, Metro, LCBO, Rogers
Norfolk Mall	Tillsonburg	2004	88,000	99.5%	Zehrs (Loblaws) (1), 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	102,000	97.8%	Whole Foods, Shoppers Drug Mart, HSBC, Royal Bank of Canada, Starbucks, Blockbuster
Orleans Gardens (3)	Ottawa	2005	111,000	94.4%	Your Independent Grocer (Loblaws), CIBC, Rogers Video, Pharma Plus, Tim Hortons
Parkway Centre	Peterborough	1996	261,000	100.0%	Price Chopper (Sobeys), Zellers, Winners, Reitmans, Addition Elle, Sport Mart, Dollarama
Queensway	Toronto	2006	67,000	100.0%	Plastic Moulders, Panache Rotisseurs
Queenston Place	Hamilton	1995	179,000	97.4%	Zellers, Mark's Work Wearhouse, Pennington's (Reitmans), Aaron's Electronics, Hamilton Produce
Sheridan Plaza	Toronto	1995	168,000	100.0%	Food Basics (Metro), Zellers
Shoppes on Dundas	Oakville	2007	56,000	98.0%	Shoppers Drug Mart, TD Canada Trust, Starbucks
Shops at King Liberty	Toronto	2004	249,000	99.4%	Metro, LCBO, TD Canada Trust, Blockbuster, Starbucks, Royal Bank of Canada, GoodLife Fitness, First Capital Realty Inc., West Elm, Knoll
Stanley Park Mall	Kitchener	1997	190,000	99.3%	Zehrs (Loblaws), Zellers, Pharma Plus, LCBO, TD Canada Trust
Steeple Hill Shopping Centre	Pickering	2000	92,000	95.6%	Price Chopper (Sobeys), Shoppers Drug Mart, Blockbuster, Royal Bank of Canada
Stoneybrook Plaza	London	2006	55,000	100.0%	Sobeys, Pharma Plus, TD Canada Trust, Home Depot
Strandherd Crossing	Ottawa	2004	123,000	100.0%	Metro, Shoppers Drug Mart, Royal Bank of Canada, TD Canada Trust, Rogers Video, Starbucks, GoodLife Fitness, H&R Block
Sunningdale Village	London	2006	73,000	97.9%	No Frills, Shoppers Drug Mart, Starbucks
Thickson Place	Whitby	1997	93,000	100.0%	Metro, Toys 'R' Us (1), CIBC, TD Canada Trust

PROPERTY	LOCATION	YEAR BUILT OR ACQUIRED	GROSS LEASABLE AREA	PERCENT OCCUPIED	ANCHORS AND MAJOR TENANTS
ONTARIO (cont'd)					
Tillsonburg Town Centre [2]	Tillsonburg	1994	277,000	89.5%	Zellers, Canadian Tire, Business Depot (Staples), Shoppers Drug Mart, LCBO, CIBC, TD Canada Trust, Rogers Video, Mark's Work Wearhouse, Reitmans, The Souce by Circuit City
University Plaza	Windsor	2001	146,000	100.0%	Metro, Canadian Tire, Shoppers Drug Mart, Bank of Montreal, Dollarama
Valley Creek	Brampton	**2008**	6,000	100.0%	Bank of Nova Scotia
Waterloo Shoppers Drug Mart	Waterloo	2004	15,000	100.0%	Shoppers Drug Mart
Wellington Corners	London	1999	82,000	94.1%	Price Chopper (Sobeys), Shoppers Drug Mart, Starbucks
Westney Heights Plaza	Ajax	2002	157,000	100.0%	Sobeys, Shoppers Drug Mart, CIBC, Scotiabank, TD Canada Trust, Rogers Video, Sherwin Williams, Starbucks
Yonge-Davis Centre	Newmarket	2003	51,000	89.8%	Sleep Country
York Mills Gardens	Toronto	2004	169,000	97.9%	Longo's Supermarket, Shoppers Drug Mart, TD Canada Trust, Rogers Video, Second Cup, McDonalds
Total – ONTARIO			**8,897,000**	**97.9%**	
QUEBEC					
Carrefour Charlemagne	Charlemagne	2006	162,000	100.0%	Rona, Sports Rousseau
Carrefour des Forges	Drummondville	2005	58,000	100.0%	IGA (Sobeys), SAQ
Centre D'Achats Ville Mont-Royal	Mount Royal	2007	133,000	92.4%	Provigo, Scotiabank, Blockbuster
Carrefour Don Quichotte	Île Perrot	2004	72,000	85.5%	Familiprix, CIBC
Carrefour du Plateau Grives	Gatineau	**2008**	8,000	100.0%	Jean Coutu, Royal Bank of Canada, Desjardins
Carrefour du Versant	Gatineau	2003	93,000	100.0%	IGA (Sobeys), Dollarama, Familiprix, TD Canada Trust, SAQ, Tim Hortons, Royal Bank of Canada, Quizno's
Carrefour Soumande	Québec City	2004	140,000	88.6%	Royal Bank of Canada, Toys 'R' Us, Fruiterie 440
Carrefour St. David	Québec City	2006	64,000	100.0%	Metro, TD Canada Trust, Starbucks, Subway
Carrefour St. Hubert	Longueuil	2002	134,000	98.4%	Jean Coutu, CIBC, SAQ, Dollarama, Super C
Centre commercial Beaconsfield	Beaconsfield	2002	112,000	72.4%	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank of Canada
Centre commercial Côte St. Luc	Côte St. Luc	2002	162,000	89.3%	IGA (Sobeys), Jean Coutu, SAQ, Royal Bank of Canada, Blockbuster, Dollarama, Reitmans
Centre commercial Domaine	Montréal	2002	195,000	95.9%	Metro [3], Zellers, Rossy, CIBC, Dollarama, Uniprix, Reitmans, Tim Hortons
Centre commercial Maisonneuve [2]	Montréal	2003	114,000	100.0%	Provigo (Loblaws), Canadian Tire, TD CanadaTrust, SAQ, Brunet
Centre commercial Van Horne	Montréal	2002	79,000	100.0%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Royal Bank of Canada, Scotiabank, Tim Hortons
Centre commercial Wilderton	Montréal	2002	129,000	97.7%	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Royal Bank of Canada, Laurentian Bank, Femme Fitness, Dollarama
Centre Kirkland/St. Charles	Kirkland	2006	114,000	95.4%	Uniprix, Bank of Montreal, Dollarama, CIBC, SAQ
Centre Maxi Trois Rivières	Trois Rivières	2003	122,000	91.1%	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	94.9%	IGA Extra (Sobeys), Familiprix, Desjardins
Faubourg des Prairies	Montréal	2007	61,000	88.9%	IGA (Sobeys), SAQ, Familiprix
Galeries Brien	Repentigny	2002	59,000	100.0%	IGA (Sobeys), Uniprix
Galeries des Chesnaye	Lachenaie	2005	58,000	95.3%	IGA (Sobeys), Uniprix, SAQ, Desjardins

PROPERTY	LOCATION	YEAR BUILT OR ACQUIRED	GROSS LEASABLE AREA	PERCENT OCCUPIED	ANCHORS AND MAJOR TENANTS
QUEBEC (cont'd)					
Galeries Normandie	Montréal	2002	210,000	87.6%	IGA (Sobeys), Pharmaprix, Bank of Montreal, Desjardins, Royal Bank of Canada, SAQ, Baron Sports, Dollarama, 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	97.9%	Maxi (Loblaws), Toys 'R' Us [1], Future Shop, CIBC, TD Canada Trust, SAQ, Lazy Boy Furniture
Le Campanîle & Place de Commerce	Montréal	2003	104,000	93.1%	Pharmaprix (Shoppers Drug Mart), Bank of Montreal, Jean Coutu
Les Galeries de Lanaudière [3]	Lachenaie	2002	268,000	100.0%	Bureau en Gros (Staples), Winners, Future Shop, Sears, Home Depot [1], Pier 1 Imports, Reitmans, TD Canada Trust
Les Galeries de Repentigny	Repentigny	1997	121,000	97.7%	Super C (Metro), Pharmaprix (Shoppers Drug Mart), Tim Hortons
Les Promenades du Parc	Longueuil	1997	105,000	100.0%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Blockbuster, National Bank, Tim Hortons
Marche du Vieux Longueuil	Longueuil	**2008**	39,000	100.0%	Metro
Place Bordeaux [5]	Gatineau	2002	29,000	100.0%	Pharmaprix (Shoppers Drug Mart), National Bank
Place Cité Des Jeunes	Gatineau	2001	58,000	86.9%	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	94.6%	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	90.8%	Provigo (Loblaws), National Bank, SAQ
Place Michelet	Montréal	2005	59,000	96.1%	IGA Extra (Sobeys), TD Canada Trust, A&W, St. Hubert, Sherwin Williams
Place Nelligan [4]	Gatineau	2002	57,000	100.0%	IGA (Sobeys), Citifinancial
Place Panama	Brossard	2006	94,000	95.8%	Loblaws [1]
Place Pierre Boucher	Boucherville Borough	2004	80,000	88.8%	Maxi (Loblaws), Pharmaprix (Shoppers Drug Mart), SAQ
Place Pointe-aux-Trembles	Montréal	2002	118,000	91.9%	Metro, Rossy, Jean Coutu
Place Provencher	Montréal	2004	46,000	100.0%	Bureau en Gros (Staples), Pharmaprix (Shoppers Drug Mart)
Place Roland Therrien	Longueuil	2000	42,000	100.0%	Super C (Metro) [1], Scotiabank, Blockbuster
Place Seigneuriale	Québec City	2004	54,000	88.2%	Metro, Royal Bank of Canada, Nautilus Plus
Place Viau	Montréal	2002	152,000	100.0%	Zellers
Place Vilamont	Laval	2002	73,000	92.2%	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, Cineplex, SAQ, National Bank, Tim Hortons, Harveys, Hart
Plaza Don Quichotte	Île Perrot	2004	134,000	96.8%	IGA (Sobeys), SAQ, Caisse Populaire, Desjardins, Aubainerie, Laurentian Bank, Tim Hortons
Plaza Laval Élysée	Laval	2004	63,000	100.0%	Maxi, Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Tim Hortons
Promenades Lévis	Lévis	2004	163,000	88.6%	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

PROPERTY	LOCATION	YEAR BUILT OR ACQUIRED	GROSS LEASABLE AREA	PERCENT OCCUPIED	ANCHORS AND MAJOR TENANTS
QUEBEC (cont'd)					
Village des Valeurs	Laval	2002	27,000	100.0%	Value Village
Total – QUEBEC			**5,278,000**	**95.1%**	
ALBERTA					
Cochrane City Centre	Cochrane	2006	59,000	86.7%	Shoppers Drug Mart, Blockbuster, Starbucks
Deer Valley	Calgary	**2008**	196,000	97.3%	Calgary Co-op, Shoppers Drug Mart, Royal Bank of Canada, Zellers
Eastview Shopping Centre	Red Deer	2004	34,000	100.0%	Sobeys, Bank of Montreal, 7-Eleven
Fairmount Shopping Centre	Calgary	2006	58,000	100.0%	Royal Bank of Canada, Tim Hortons, Sobeys
Gateway Village	St. Albert	1994	105,000	88.3%	Safeway, CIBC, Scotiabank, Bank of Montreal, Tim Hortons
Kingsland Shopping Centre	Calgary	2005	46,000	89.1%	Shoppers Drug Mart, Starbucks
Lakeview Plaza	Calgary	2005	64,000	98.6%	IGA (Sobeys), Super Drug Mart, Scotiabank
London Place West	Calgary	1998	72,000	97.8%	London Drugs, Bank of Montreal, Rogers Video
McKenzie Towne Centre	Calgary	2003	144,000	100.0%	Sobeys, Rexall, Blockbuster, GoodLife Fitness
Northgate Centre	Edmonton	1997	493,000	83.3%	Safeway, Zellers, Future Shop, Royal Bank of Canada, Sport Mart
Old Strathcona	Edmonton	2003	78,000	95.3%	Canada Post, Dollarama
Red Deer Village	Red Deer	1999	217,000	97.8%	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	99.0%	Canadian Tire [1], Home Outfitters, GoodLife Fitness
Royal Oak [6]	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	63.8%	Save-On-Foods [1], CIBC, Rogers Video
Sherwood Towne Centre	Sherwood Park	1997	120,000	100.0%	Home Depot [1], Mark's Work Wearhouse, Staples, Home Sense, Royal Bank of Canada, Michael's
South Park Centre	Edmonton	1996	378,000	93.3%	Canadian Tire, Zellers, Toys 'R' Us [1], Linens 'n Things, Laura's Shoppes, Sport Chek, Starbucks
Staples Gateway	Edmonton	2007	40,000	100.0%	Staples, Mark's Work Wearhouse, Home Depot
Towerlane Mall	Airdrie	2005	218,000	83.0%	Safeway, Staples, Saan Store, TD Canada Trust, Blockbuster, The Source
TransCanada Centre	Calgary	2006	184,000	100.0%	Safeway, Rexall, Starbucks, Scotiabank
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	117,000	99.0%	Safeway, London Drugs, Scotiabank, Tim Hortons, Rogers
West Lethbridge Towne Centre	Lethbridge	1998	96,000	100.0%	Safeway, Home Hardware, Blockbuster, Starbucks, Scotia Bank
Westmount Shopping Centre	Edmonton	2007	524,000	95.5%	Shoppers Drug Mart, Safeway, Scotia Bank, TD Canada Trust, Zellers, Dollarama, Tim Hortons, Blockbuster, Bank of Montreal, Home Depot
9630 Macleod Trail	Calgary	2006	127,000	100.0%	Rona
Total – ALBERTA			**4,077,000**	**94.1%**	

PROPERTY	LOCATION	YEAR BUILT OR ACQUIRED	GROSS LEASABLE AREA	PERCENT OCCUPIED	ANCHORS AND MAJOR TENANTS
BRITISH COLUMBIA					
Broadmoor Shopping Centre	Richmond	2005	43,000	74.0%	Royal Bank of Canada, Coast Capital Savings
Coronation Mall	Duncan	2005	54,000	100.0%	Save-On-Foods, TD Canada Trust, Blockbuster, BC Liquor Store
Gorge Shopping Centre	Vancouver	**2008**	35,000	100.0%	Shoppers Drug Mart, Starbucks, Rogers, BC Liquor Store, Subway, Bell
Harbour Front Centre	Vancouver	2005	165,000	100.0%	Canadian Tire, Michael's, Vancity, Kelsey's, Mark's Work Wearhouse, PetSmart, Starbucks
Langley Crossing Shopping Centre	Langley	2005	126,000	98.8%	Shoppers Drug Mart, Longe & McQuade, Dollar Max, BDO Dunwoody LLP, Chuck E Cheese's
Langley Mall	Langley	2005	132,000	93.2%	IGA Marketplace (H. Y. Louie Group), Army & Navy, TD Canada Trust, Shoppers Home Health Care
Linens Buildings	Coquitlam	2006	38,000	100.0%	Linens 'n Things
Longwood Station	Nanaimo	2007	106,000	93.0%	Thrifty Foods, TD Canada Trust, Boston Pizza
Pemberton Plaza	Vancouver	2005	96,000	95.9%	Save-On-Foods, Vancity, Starbucks
Port Place Shopping Centre	Nanaimo	2006	142,000	81.3%	London Drugs, BC Liquor Store, CIBC, Thrifty Foods
Scott 72 Centre	Delta	2004	165,000	82.7%	London Drugs, Staples, TD Canada Trust, Starbucks
South Fraser Gate	Abbotsford	**2008**	18,000	100.0%	Shoppers Drug Mart
Staples Lougheed	Burnaby	2006	32,000	92.0%	Staples Business Depot
Terminal Park	Nanaimo	2006	29,000	95.7%	Bank of Montreal, BC Liquor Store
Terra Nova Shopping Centre	Richmond	2005	72,000	100.0%	Save-On-Foods, Royal Bank of Canada, Coast Capital Savings, Starbucks
The Olive	Vancouver	2006	21,000	100.0%	Capers Market
Time Marketplace	Vancouver	2004	43,000	86.0%	IGA Marketplace (H. Y. Louie Group), Shoppers Drug Mart
West Oaks Mall (3)	Abbotsford	2004	266,000	99.4%	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
Total – BRITISH COLUMBIA			**1,642,000**	**94.0%**	

(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

The accompanying consolidated financial statements and Management's Discussion and Analysis ("MD&A") are the responsibility of Management and have been prepared in accordance with Canadian generally accepted accounting principles.

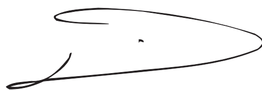
The preparation of financial statements and MD&A necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. In addition, in preparing this financial information Management must make determinations as to the relevancy of information to be included, and estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 5, 2009.

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, transactions are properly authorized and recorded, and that reliable financial information is produced. PricewaterhouseCoopers LLP have been engaged to assist management and the Audit Committee in planning and conducting its annual internal audit plan.

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, 2008, 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 National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that the disclosure controls and procedures and internal controls over financial reporting were designed and operating 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
Executive Vice President and Chief Financial Officer

Toronto, Ontario
March 5, 2009

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, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 2, 2009
(except as to note 28(e), which is as of March 5, 2009)

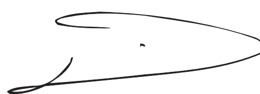
Consolidated Balance Sheets

December 31 (thousands of dollars)

	2008	2007
ASSETS		
Real Estate Investments		
Shopping centres (note 3)	$ 2,968,785	$ 2,718,078
Land and shopping centres under development (note 4)	281,959	284,077
Deferred costs (note 5)	76,800	79,606
Intangible assets (note 6)	29,312	35,938
	3,356,856	3,117,699
Investment in Equity One, Inc. (note 7)	227,259	191,536
Loans, mortgages and other real estate assets (note 8)	32,480	11,589
	3,616,595	3,320,824
Other assets (note 9)	38,926	32,395
Amounts receivable (notes 10 and 27)	45,501	36,008
Cash and cash equivalents (note 23(d))	7,263	10,451
Future income tax assets (note 19)	11,977	9,731
	$ 3,720,262	$ 3,409,409
LIABILITIES		
Mortgages, loans and credit facilities (note 12)	$ 1,573,530	$ 1,471,114
Accounts payable and other liabilities (note 13)	166,507	110,006
Intangible liabilities (note 6)	17,264	17,795
Senior unsecured debentures (note 14)	593,288	595,376
Convertible debentures (note 15)	218,247	217,030
Future income tax liabilities (note 19)	55,620	46,757
	2,624,456	2,458,078
SHAREHOLDERS' EQUITY	1,095,806	951,331
	$ 3,720,262	$ 3,409,409

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:



Chaim Katzman
Chairman of the Board

Dori J. Segal
Director

Consolidated Statements of Earnings

Years ended December 31 (thousands of dollars, except per share amounts)

	2008	2007
REVENUE		
Property rental revenue	$ 410,192	$ 376,891
Interest and other income (note 17)	9,422	5,550
	419,614	382,441
EXPENSES		
Property operating costs	150,601	134,446
Interest expense (note 18)	113,685	116,043
Amortization		
Shopping centres	60,253	55,118
Deferred costs	16,593	14,629
Intangible assets	7,783	8,217
Deferred financing fees	854	813
Other assets	1,305	1,051
Corporate expenses	21,577	23,544
	372,651	353,861
Equity income from Equity One, Inc. (note 7)	8,716	14,375
Income before income taxes	55,679	42,955
Income taxes (note 19)		
Current	1,985	1,672
Future	16,264	10,930
	18,249	12,602
Net income	$ 37,430	$ 30,353
Earnings per common share, basic and diluted (note 20)	$ 0.43	$ 0.39

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31 (thousands of dollars)

	2008	2007
NET INCOME	$ 37,430	$ 30,353
OTHER COMPREHENSIVE LOSS		
Unrealized foreign currency gain (loss) on translating self-sustaining foreign operations		
Gains (losses) arising during the year	12,043	(9,950)
Reclassification adjustment for dilution gain on investment in Equity One, Inc.	(724)	—
	11,319	(9,950)
Other comprehensive losses of Equity One, Inc.		
Losses arising during the year	(1,933)	(320)
Reclassification adjustment for dilution gain included in net income	(11)	—
	(1,944)	(320)
Unrealized losses on cash flow hedges of interest rates		
Unrealized losses arising during the year	(16,443)	(2,139)
Reclassification adjustment for gains included in net income	—	(597)
	(16,443)	(2,736)
Change in cumulative unrealized gain on available-for-sale marketable securities		
Unrealized losses arising during the year	(6,645)	(534)
Reclassification adjustments for losses included in net income	55	293
	(6,590)	(241)
Other comprehensive loss before income taxes	(13,658)	(13,247)
Future income tax recovery (note 22(a))	(5,832)	(1,044)
Other comprehensive loss	(7,826)	(12,203)
COMPREHENSIVE INCOME	$ 29,604	$ 18,150

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(thousands of dollars)

	Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Deficit and Accumulated Comprehensive Income/(Loss)	Share Capital	Contributed Surplus	Convertible Debentures Equity Component	Options, Deferred Share Units and Warrants	Total
		(note 22(b))		(note 16)		(note 15)	(note 16)	
Shareholders' equity, December 31, 2007	$ (304,382)	$ (25,965)	$ (330,347)	$ 1,238,286	$ 19,513	$ 15,905	$ 7,974	$ 951,331
Changes during the year								
Net income	37,430	—	37,430	—	—	—	—	37,430
Issuance of common shares	—	—	—	153,856	—	—	—	153,856
Dividends	(113,116)	—	(113,116)	—	—	—	—	(113,116)
Dividends reinvested in common shares	—	—	—	59,980	—	—	—	59,980
Payment of interest on convertible debentures	—	—	—	12,891	—	—	—	12,891
Exercise of warrants	—	—	—	2,197	—	—	(139)	2,058
Options vested	—	—	—	—	—	—	1,613	1,613
Exercise of options	—	—	—	785	—	—	(29)	756
Deferred share units	—	—	—	—	—	—	597	597
Restricted share units	—	—	—	—	—	—	2,249	2,249
Exercise of restricted share units	—	—	—	—	—	—	(1,407)	(1,407)
Issue costs	—	—	—	(4,606)	—	—	—	(4,606)
Other comprehensive loss	—	(7,826)	(7,826)	—	—	—	—	(7,826)
Shareholders' equity, December 31, 2008	$(380,068)	$ (33,791)	$ (413,859)	$ 1,463,389	$ 19,513	$ 15,905	$ 10,858	$ 1,095,806

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(thousands of dollars)

	Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Deficit and Accumulated Comprehensive Income/(Loss)	Share Capital	Contributed Surplus	Convertible Debentures Equity Component	Options, Deferred Share Units and Warrants	Total
		(note 22(b))		(note 16)		(note 15)	(note 16)	
Shareholders' equity, December 31, 2006	$ (236,047)	$ (13,762)	$ (249,809)	$ 1,128,926	$ 19,513	$ 9,030	$ 4,861	$ 912,521
Changes during the year								
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.

Consolidated Statements of Cash Flows

Years ended December 31 (thousands of dollars)

	2008	2007
CASH FLOW PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	$ 37,430	$ 30,353
Items not affecting cash (note 23(a))	98,331	82,150
Deferred leasing costs	(4,033)	(3,429)
Settlement of restricted share units	(1,275)	(1,826)
Dividends received from Equity One, Inc. (note 7)	18,193	17,617
Net change in non-cash operating items (note 23(b))	(2,688)	6,543
Cash provided by operating activities	145,958	131,408
INVESTING ACTIVITIES		
Acquisition of shopping centres (note 3)	(56,704)	(230,554)
Acquisition of land for development (note 4)	(11,887)	(65,562)
Proceeds from disposition of shopping centre	—	6,400
Proceeds from disposition of land held for development	10,581	—
Expenditures on shopping centres	(22,222)	(23,718)
Expenditures on land and shopping centres under development	(227,775)	(143,744)
Changes in accounts payable and accrued liabilities related to expenditures on land and shopping centres under development	30,072	1,309
Investment in common shares of Equity One, Inc. (note 7)	(1,263)	(2,254)
Changes in loans, mortgages and other real estate assets (note 23(c))	(30,520)	14,352
Cash used in investing activities	(309,718)	(443,771)
FINANCING ACTIVITIES		
Mortgage financings, loans and credit facilities		
Borrowings, net of financing costs	552,708	425,428
Principal instalment payments	(38,139)	(39,400)
Other repayments on maturity	(452,273)	(305,554)
Issuance of common shares, net of issue costs	149,797	5,976
(Purchase) issuance of senior unsecured debentures, net of issue costs (note 14)	(2,543)	198,296
Issuance of convertible debentures, net of issue costs (note 15)	—	53,299
Payment of dividends	(49,312)	(21,066)
Cash provided by financing activities	160,238	316,979
Effect of currency rate movement on cash balances	334	(975)
(Decrease) increase in cash and cash equivalents	(3,188)	3,641
Cash and cash equivalents, beginning of the year	10,451	6,810
Cash and cash equivalents, end of the year (note 23(d))	$ 7,263	$ 10,451

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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 and 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 using the equity method 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) 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 year end are estimated based on information known at the time 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 are less than its carrying value, the long-lived asset is written down to its fair value. Cumulative future cash flows represent the undiscounted estimated future cash flow expected to be received from the long-lived asset. Assets reviewed for impairment under this policy include shopping centres, land and shopping centres under development, intangible assets, and furniture, fixtures and equipment.

(g) **Furniture, Fixtures and Equipment**
Furniture, fixtures and equipment are recorded at cost less accumulated amortization.

(h) **Marketable Securities**
Marketable securities are classified as either held-to-maturity, held for trading, or available-for-sale.

- 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 or when a loss is deemed to be other than temporary and subsequently recorded on the income statement.

(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 inducements 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 improvements 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.

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.

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. The resulting net gains or losses are accumulated and included in a separate component of shareholders' equity described as Accumulated Other Comprehensive Income.

(m) Derivative Financial Instruments and Hedging

Derivative financial instruments are utilized by the Company in the management of its 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 Other Comprehensive Income ("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 OCI. 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. 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 the interest expense, calculated using the discount rate, is recorded as an increase in the liability component.

(ii) The equity component of the convertible debentures is included in Shareholders' Equity in the consolidated balance sheets. The equity component consists of the value ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the debentures 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 16(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, 2008, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). They include *Section 1535, Capital Disclosures; Section 3862, Financial Instruments — Disclosures*; and *Section 3863, Financial Instruments — Presentation*. As the standards relate primarily to disclosure, there was no impact on the Company's financial position or results of operations.

(i) Capital Disclosures — CICA Section 1535
On December 1, 2006, the CICA issued Handbook *Section 1535 Capital Disclosures*. Section 1535 specifies additional disclosures required regarding the Company's management of capital. The Company has included these disclosures in Note 11.

(ii) Financial Instruments — Disclosures and Presentation — CICA Sections 3862 and 3863
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*, enhancing disclosure requirements. Additional disclosures have been included in Notes 10, 12 and 21 to comply with these standards.

(b) Future accounting policy changes

(i) Goodwill and Intangible Assets — CICA Section 3064
On January 31, 2008, the CICA issued a new accounting standard: Handbook *Section 3064 Goodwill and Intangible Assets* which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. 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 and will be adopted on a retroactive basis with restatement of prior years. As a result of applying this standard, the Company will no longer

defer recoverable costs and match the expense to the period over which the costs are recovered from the tenants. The standard requires that the expenditure is either capitalized or expensed in the period it is incurred, based upon the nature of the expenditure.

The effect of adopting this standard is summarized as follows:

Effect on the balance sheet as at December 31, 2008 *(thousands of dollars)*		Increase (decrease)
Shopping centres	$	13,400
Other assets	$	(11,500)
Shareholders' Equity	$	1,900

Effect on the statement of income for the year ended December 31, 2008 *(thousands of dollars)*		Increase (decrease)
Property operating costs	$	(600)
Building amortization expense	$	400
Net income	$	200
Earnings per share (basic and diluted)	$	—

(ii) Future adoption of IFRS ("International Financial Reporting Standards") in Canada

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective for fiscal periods beginning on or after January 1, 2011. The Canadian Securities Administrators have provided issuers with the option of early adopting IFRS for Canadian reporting purposes. The Company does not intend to early adopt IFRS at this time. The Company is currently evaluating the impact of adopting IFRS as its primary accounting principles and implementing its changeover plan.

(iii) Business Combinations

In January 2009, the CICA issued new accounting standards: Handbook *Section 1582 – Business Combinations*, Handbook S*ection 1602 – Non-controlling Interests* and Handbook *Section 1601 – Consolidated Financial Statements*, which are based on the IASB's International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards shall not be adjusted upon application of these new standards. The Non-controlling Interests standard should be applied retrospectively except for certain items.

The Company is assessing whether it will apply the new accounting standards at the beginning of its 2011 fiscal year or elect to early adopt the new accounting standards at the beginning of its 2010 fiscal year in order to minimize the amount of restatement when the Company adopts International Financial Reporting Standards ("IFRS"). The impact of the new standards on the Company's results of operations, financial position and disclosures will be assessed as part of the Company's IFRS transition project.

3. SHOPPING CENTRES

(thousands of dollars)	2008	2007
Land	$ 756,244	$ 695,025
Buildings and improvements	2,470,053	2,222,071
	3,226,297	2,917,096
Accumulated amortization	(257,512)	(199,018)
	$ 2,968,785	$ 2,718,078

The Company acquired interests in four (2007 – six) income-producing shopping centres as follows:

(thousands of dollars)	2008	2007
Allocation of purchase price:		
Shopping centres	$ 54,490	$ 229,824
Shopping centres under development	4,237	8,040
Deferred costs	1,235	6,872
Intangible assets	1,492	12,745
Intangible liabilities	(2,057)	(1,921)
Total purchase price, including acquisition costs	59,397	255,560
Less mortgages assumed on acquisition and vendor-take-back mortgages	(2,850)	(24,602)
Difference between principal amount and fair value of assumed mortgage financing	157	(404)
Net cash outlay for acquisitions, funded from cash and credit facilities	$ 56,704	$ 230,554

During the year ended December 31, 2008, the Company sold a shopping centre in Regina, Saskatchewan for proceeds of $3.6 million resulting in a gain of $1.6 million (note 17).

4. LAND AND SHOPPING CENTRES UNDER DEVELOPMENT

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

(thousands of dollars)	2008	2007
Purchase price of land and shopping centres acquired for development or redevelopment, including acquisition costs	$ 15,802	$ 65,562
Less mortgages assumed on acquisitions and vendor-take-back mortgages	(4,024)	—
Difference between principal amount and fair value of assumed mortgage financing	109	—
Net cash outlay for acquisitions, funded through cash and credit facilities	$ 11,887	$ 65,562

During the year ended December 31, 2008, the Company sold four land parcels totalling 18.9 acres for gross proceeds of $11.0 million, resulting in a total net gain of $3.9 million (note 17). The Company also acquired an additional 25% interest in an existing land parcel for future development located in Calgary, Alberta in exchange for $1.6 million.

During the year ended December 31, 2008, the Company completed developments with a book value of $288.7 million (2007 – $149.1 million) that were transferred to shopping centres. In addition, during the year ended December 31, 2008, the Company transferred shopping centres with a book value of $44.2 million (2007 – $38.2 million) to land and shopping centres under development. The Company also invested $227.8 million (2007 – $143.7) on expenditures on its development properties.

Interest expense and incremental direct internal costs capitalized to development properties during the year ended December 31, 2008, totalled $20.7 million (2007 – $15.6 million) and $6.0 million (2007 – $6.7 million), respectively. The costs to complete projects currently under development are estimated at $114.8 million.

5. DEFERRED COSTS

	2008		
(thousands of dollars)	Cost	Accumulated Amortization	Net Book Value
Deferred leasing costs and tenant improvements incurred through leasing activities	$ 77,502	$ 29,620	$ 47,882
Tenant improvement costs recorded on acquisition of shopping centres	48,519	19,601	28,918
	$ 126,021	$ 49,221	$ 76,800

	2007		
(thousands of dollars)	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

Incremental direct internal costs related to leasing activities totalling $2.9 million (2007 – $2.4 million) were capitalized during the year ended December 31, 2008.

6. INTANGIBLE ASSETS AND LIABILITIES

	2008		
(thousands of dollars)	Cost	Accumulated Amortization	Net Book Value
Intangible Assets			
Lease origination costs	$ 44,051	$ 20,968	$ 23,083
Above-market in-place leases	2,235	1,344	891
Tenant relationships	7,518	2,180	5,338
	$ 53,804	$ 24,492	$ 29,312
Intangible Liabilities			
Below-market in-place leases	$ 24,990	$ 7,726	$ 17,264

	2007		
(thousands of dollars)	Cost	Accumulated Amortization	Net Book Value
Intangible Assets			
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
Intangible Liabilities			
Below-market in-place leases	$ 23,204	$ 5,409	$ 17,795

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

7. INVESTMENT IN EQUITY ONE, INC.

(thousands of dollars)	**2008**	2007
Investment in Equity One, Inc., beginning of year	**$ 191,536**	$ 226,996
Equity income	**8,716**	14,375
Less dividends received	**(18,193)**	(17,617)
Purchase of Equity One, Inc., common shares (a)	**1,263**	2,254
Other comprehensive losses of Equity One, Inc.	**(1,955)**	(320)
Dilution gain (b)	**2,359**	—
Cumulative currency effect	**43,533**	(34,152)
Investment in Equity One, Inc., end of year (c)	**$ 227,259**	$ 191,536
Ownership interest in Equity One at December 31	**18.5%**	19.1%

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 2008, the Company’s U.S. subsidiaries acquired 96,500 (2007 – 80,000) common shares of Equity One at an average price of US$10.75 (2007 – US$26.43) per share.
(b) In 2008, Equity One’s common shares outstanding increased from 73.3 million to 76.2 million, resulting in a reduction of the Company’s ownership interest in Equity One from 19.1% at December 31, 2007 to 18.5% at December 31, 2008. As a result, the Company has recorded a dilution gain of $2.9 million before tax ($1.6 million, net of tax) during the year ended December 31, 2008 (note 17).
(c) The closing price on the NYSE of Equity One’s common shares at December 31, 2008 was US$17.70 (2007 – US$23.03) per share. The book value per share of the Company’s investment in Equity One at December 31, 2008 was US$13.25 (2007 – US$13.82). At December 31, 2008, 76.2 million (2007 – 73.3 million) shares of Equity One were outstanding, of which 14.1 million (2007 – 14.0 million) shares were held by the Company.

8. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS

(thousands of dollars)	2008	2007
Investment in units of Allied Properties Real Estate Investment Trust (a)	$ 19,808	$ —
Investments in other marketable securities (a)	2,980	2,130
Loans receivable (b)	9,692	9,459
	$ 32,480	$ 11,589

(a) The Company invests from time to time in the securities of other public real estate entities. These securities are recorded at market value. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income, while unrealized gains and losses on securities held for trading are recorded in net income.

The investment in Allied Properties REIT at December 31, 2008 consisted of 1,591,000 units with a cost of $16.57 per unit. As at December 31, 2008, the market value of these units was $12.45 per unit resulting in an unrealized loss of $4.12 per unit or a total of $6.6 million which has been recorded in other comprehensive income, as the investment has been classified as available-for-sale under relevant accounting rules. Subsequent to year end, the Company made further investments in Allied Properties REIT which are discussed under Subsequent Events (Note 28(c)).

Management has considered whether there is an "other-than-temporary" decline in the value of the Allied Properties REIT units, given the difference between current market value and cost. An "other-than-temporary" decline would result in the loss being reclassified to net income. Management has concluded that an "other-than-temporary" decline does not exist as of December 31, 2008, due to the fact that the decline in the unit price of Allied primarily took place in a two-and-a-half month period in 2008 and therefore, the decline is not, as of December 31, 2008, considered prolonged. The Company will periodically re-evaluate whether the decline is other-than-temporary and reclassify the loss if appropriate.

(b) The Company has funded its partners' share of certain development activities. The loans bear interest at an average rate of 7.1% (2007 – 7.9%) 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.

9. OTHER ASSETS

(thousands of dollars)	2008	2007
Deferred financing costs on credit facilities (net of accumulated amortization of $1.3 million (2007 – $0.5 million))	$ 1,040	$ 1,643
Prepaid expenses	16,830	13,042
Deposit in trust on sale of property	3,360	—
Deposits related to property operations	9,989	8,677
Deposits and costs on properties under option	2,527	3,825
Fixtures, equipment and computer hardware and software (net of accumulated amortization of $3.3 million (2007 – $2.0 million))	5,180	5,208
	$ 38,926	$ 32,395

10. AMOUNTS RECEIVABLE

(thousands of dollars)	2008	2007
Trade receivables (net of allowances for doubtful accounts of $3.4 million (2007 – $3.0 million))	$ 13,788	$ 13,227
Rent revenue recognized on a straight-line basis (net of allowances for doubtful accounts of $5.3 million (2007 – $4.4 million))	26,835	21,463
Construction and development related chargebacks and receivables	3,844	100
Corporate and other amounts receivable	1,034	1,218
	$ 45,501	$ 36,008

The Company determines its allowance for doubtful accounts on a tenant-by-tenant basis taking account of lease terms, industry conditions, and the status of the tenant's account, among other factors. Accounts are written off only when all collection efforts have been exhausted.

11. CAPITAL MANAGEMENT

The Company manages its capital, taking into account the long-term business objectives of the Company, to provide stability and reduce risk while generating an acceptable return on investment over the long term to shareholders. The Company's capital structure currently includes common shares, convertible debentures and secured and unsecured term financings and revolving credit facilities which together provide the Company with financing flexibility to meet its capital needs. Primary uses of capital include acquisitions, development activities, capital improvements, funding of leasing costs, debt principal repayments and the payment of dividends to shareholders. The actual level and type of future financings to fund these capital requirements will be determined based on prevailing interest rates, various costs of debt and/or equity capital, capital market conditions and Management's general view of the required leverage in the business.

The components of the Company's capital as at December 31, 2008 are set out in the table below:

(millions of dollars)	2008	2007
Liabilities (principal amounts outstanding)		
Mortgages – Canada	$ 1,211	$ 1,146
Loans and credit facilities – Canada	185	178
Loans and credit facilities – U.S.	178	147
Mortgages and credit facilities	1,574	1,471
Senior unsecured debentures principal	597	600
Convertible debentures principal	233	233
Shareholders' equity (based on closing share price of $18.97 (2007 – $24.02))		
Common shares	1,707	1,914
	$ 4,111	$ 4,218

The Company's overall capital financing strategy includes maintaining debt in the range of 45% to 60% of total market capitalization. The Company monitors a number of financial ratios in conjunction with its financial planning. These ratios are set out in the table below:

	Guideline	**2008**	2007
Debt to total market capitalization	45-60%	**52.5%**	48.9%
Debt to aggregate assets	<65%	**53.6%**	56.4%
EBITDA interest coverage excluding capitalized interest on development		**2.66**	2.39
Fixed charges coverage ratio based on EBITDA		**1.72**	1.59
Unencumbered asset value ratio	>1.30	**1.85**	1.49

The above ratios include non-GAAP measures which are defined below:

Debt consists of mortgages, loans, credit facilities and senior unsecured debentures, net of cash on hand. Debt excludes convertible debentures if the Company pays interest in shares and if the maturity date is later than the maturity of senior unsecured financings.

Aggregate assets consist of total assets plus accumulated amortization of buildings, deferred costs and intangible assets, less future income tax assets and cash.

Total market capitalization consists of the market value of the Company's common shares, the par value of senior unsecured debentures and convertible debentures and mortgages, loans and credit facilities.

EBITDA is calculated as net income, adding back income tax expense, interest expense per the income statement, amortization expense and excluding the impact of gains and losses and other non-cash items.

Fixed charges include financing costs plus principal payments on debt.

Unencumbered assets include the gross book value of assets that have not been pledged as security under any credit agreement or mortgage excluding land and shopping centres under development and future income tax assets. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt.

The Company's strategy involves maintaining and improving the above ratios to allow continued access to capital at a reasonable cost. The Company's senior unsecured debentures are currently rated BBB with a stable trend by Dominion Bond Rating Services and Baa(3) with a stable outlook by Moody's Investor Services.

The Company's long-term financial objectives remained substantially unchanged during the past five years. However, given the disruption in the financial and credit markets since the third quarter of 2007, the type of capital available has shifted to primarily secured financing with no availability of unsecured financings at a reasonable cost.

The Company has therefore accessed the secured financing market both in the form of mortgages and bank credit facilities to finance its activities. The Company's long-term financing strategy is based on maintaining maximum flexibility in accessing capital including a pool of unencumbered assets and maintaining investment grade credit agency ratings.

Unsecured financing will be utilized once available at a reasonable cost. The Company periodically re-evaluates its overall financing and capital strategy to ensure the best access to available capital at the lowest possible cost.

The Company is subject to financial covenants in agreements governing its senior unsecured debentures and term revolving credit facilities. The Company is in compliance with all financial covenants.

12. MORTGAGES, LOANS AND CREDIT FACILITIES

	2008		
(thousands of dollars)	Canada	U.S.	Total
Fixed rate mortgages	$ 1,210,568	$ —	$ 1,210,568
Secured term loans			
Floating rate hedged (with interest rate swaps)	—	60,764	60,764
Floating rate	—	62,558	62,558
Secured revolving credit facilities			
Floating rate	—	30,450	30,450
Unsecured revolving credit facilities			
Floating rate hedged (with interest rate swaps)	50,000	—	50,000
Floating rate	134,586	24,604	159,190
	$ 1,395,154	$ 178,376	$ 1,573,530

	2007		
(thousands of dollars)	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
Secured revolving credit facilities			
Floating rate	178,475	18,835	197,310
	$ 1,324,303	$ 146,811	$ 1,471,114

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

At December 31, 2008, the Company had $141.0 million (2007 – $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 $3.3 billion as at December 31, 2008 (2007 – $3.1 billion), approximately $1.6 billion (2007 – $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 mortgages bear interest at a weighted coupon interest rate of 6.21% at December 31, 2008 (2007 – 6.32%) and mature in years ranging from 2009 to 2025. The weighted average effective interest rate on fixed rate financing at December 31, 2008 was 6.17% (2007 – 6.14%).

Floating rate financing hedged (with interest rate swaps) is comprised of B.A. swaps on a notional $50 million (2007 – nil) at an average fixed rate of 4.27% plus applicable spreads which mature by 2018.

Floating rate financing bears interest at floating rates determined by reference to Canadian prime lenders or bankers' acceptance rates ranging from 2.70% to 4.85% and matures in March 2010.

Principal repayments of Canadian dollar mortgages and credit facilities outstanding as at December 31, 2008 are as follows:

(thousands of dollars)	Principal Instalment Payments	Balance Maturing	Total	Weighted Coupon Interest Rate
2009	$ 31,223	$ 60,477	$ 91,700	5.64%
2010	30,530	295,774	326,304	4.28%
2011	29,208	62,672	91,880	7.17%
2012	27,150	108,785	135,935	6.96%
2013	23,910	155,189	179,099	6.34%
Thereafter	51,512	519,557	571,069	5.94%
	193,533	1,202,454	1,395,987	5.72%
Unamortized deferred financing costs and premiums and discounts, net	—	—	(833)	—
	$ 193,533	$ 1,202,454	$ 1,395,154	—

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. This facility was refinanced subsequent to December 31, 2008 as described in Note 28(e).

United States

Floating rate financing hedged (with interest rate swaps) is comprised of LIBOR swap agreements on a notional US$50 million (2007 – US$40 million) at an average fixed rate of 4.54% (2007 – 4.55%) plus applicable spreads, and matures between 2013 and 2018. Floating rate financing of $51.5 million (US$42.3 million) bears interest at the LIBOR plus 145 basis points and matures in 2010. Floating rate financing of $11.2 million (US$9.2 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 2.06% to 3.72%.

In 2007, floating rate financing of $65.9 million (US$66.5 million) bore interest at LIBOR plus 145 basis points and floating rate financing of $13.8 million (US$13.9 million) bore interest at LIBOR plus 140 basis points. 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 5.25% to 8.10%.

Principal repayments of U.S. dollar financing outstanding as at December 31, 2008 are due as follows:

(thousands of dollars)	Principal Instalment Payments	Balance Maturing	Total
2009	$ 8,222	$ —	$ 8,222
2010	35,018	126,062	161,080
2011	228	9,120	9,348
	43,468	135,182	178,650
Add: unamortized deferred financing costs and premiums and discounts, net	—	—	(274)
	$ 43,468	$ 135,182	$ 178,376

At December 31, 2008, the fair value of the Company's mortgages, loans and credit facilities was approximately $1,612 million (2007 – $1,493 million).

Based on the amount of floating rate debt as of December 31, 2008, a 1% change in prevailing interest rates would change annualized interest expense by approximately $2.5 million.

13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(thousands of dollars)	2008	2007
Trade payables and accruals	$ 49,767	$ 44,367
Construction and development payables and accruals	41,038	10,965
Accrued interest	17,276	17,836
Dividends payable	28,801	25,498
Interest rate swaps at fair value	17,655	695
Tenant deposits	9,297	8,333
Other liabilities	2,673	2,312
	$ 166,507	$ 110,006

14. SENIOR UNSECURED DEBENTURES

(thousands of dollars)						2008	2007
			Principal	Interest Rate			
Series	Date of Issue	Maturity Date	Outstanding	Coupon	Effective		
A	June 21, 2005	June 21, 2012	$ 100,000	5.08%	5.29%	$ 99,259	$ 99,096
B	March 30, 2006	March 30, 2011	$ 100,000	5.25%	5.51%	99,451	99,227
C	August 1, 2006	December 1, 2011	$ 100,000	5.49%	5.67%	99,532	99,388
D	September 18, 2006	April 1, 2013	$ 97,000	5.34%	5.51%	96,389	99,240
E	January 31, 2007	January 31, 2014	$ 100,000	5.36%	5.52%	99,347	99,224
F	April 5, 2007	October 30, 2014	$ 100,000	5.32%	5.47%	99,310	99,201
			$ 597,000	5.31%	5.50%	$ 593,288	$ 595,376

On December 29, 2008, the Company purchased $3 million of the Series D 5.34% senior unsecured debentures for $2.5 million resulting in a gain of $0.4 million (note 17).

The fair value of the senior unsecured debentures is approximately $518 million at December 31, 2008 (2007 – $580 million) based on closing bid spreads and current underlying Government of Canada bond yields.

15. CONVERTIBLE DEBENTURES

(thousands of dollars)				2008			2007		
		Interest Rate							
Date of Issue	Maturity Date	Coupon	Effective	Principal	Liability	Equity	Principal	Liability	Equity
December 19, 2005	September 30, 2017	5.50%	6.45%	$ 83,000	$ 77,797	$ 2,503	$ 83,000	$ 77,369	$ 2,503
November 30, 2006	September 30, 2017	5.50%	6.39%	100,000	94,084	6,015	100,000	93,593	6,015
June 29, 2007	September 30, 2017	5.50%	6.61%	50,000	46,366	7,387	50,000	46,068	7,387
		5.50%	6.46%	$ 233,000	$ 218,247	$ 15,905	$ 233,000	$ 217,030	$ 15,905

In 2008, 600,661 common shares (2007 – 467,057) were issued for $12.9 million (2007 – $12.0 million) to pay interest to holders of convertible debentures.

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

On June 29, 2007, the Company issued $50 million for total proceeds of $53.5 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. Of these debentures, $49 million of the principal amount were issued to subsidiaries of the Company's major shareholder, Gazit-Globe Ltd.

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.

As at December 31, 2008, subsidiaries of the Company's major shareholder, Gazit-Globe Ltd. ("Gazit"), owned $123.6 million (2007 – $118.7 million) principal amount of the outstanding convertible debentures.

Based on the Toronto Stock Exchange ("TSX") closing bid price, as at December 31, 2008, the market value of the principal amount of the convertible debentures was $186 million (2007 – $221 million).

16. 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 *(thousands of dollars)*
Issued and outstanding at December 31, 2006	**75,297,908**	**1,128,926**
Payment of interest on convertible debentures (note 15)	467,057	12,048
Conversion of convertible debentures (note 15)	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	—	(474)
Tax effect on issue costs	—	157
Issued and outstanding at December 31, 2007	**79,681,929**	**1,238,286**

	Number of Common Shares	Stated Capital *(thousands of dollars)*
Issued and outstanding at December 31, 2007	**79,681,929**	**1,238,286**
Issuance of common shares (b)	6,740,000	152,449
Payment of interest on convertible debentures (note 15)	600,661	12,891
Exercise of warrants (c)	174,484	2,197
Exercise of options (d)	48,500	785
Private placement of shares (b)	71,959	1,407
Dividends reinvested in common shares (f)	2,685,048	59,980
Issue costs	—	(6,775)
Tax effect on issue costs	—	2,169
Issued and outstanding at December 31, 2008	**90,002,581**	**1,463,389**

(b) Issuance of Common Shares

On March 26, 2008, the Company issued 4,900,000 shares at a price of $22.25 per share for gross proceeds of $109 million.

On July 3, 2008, the Company completed the sale of 1,600,000 common shares as well as 240,000 additional shares pursuant to the exercise of the over-allotment option by the underwriters at a price of $23.60 per common share for gross proceeds of $43.4 million.

On December 15, 2008, the Company issued 71,959 shares to two members of the Company's management at a price of $17.72 per share for gross proceeds of $1.3 million.

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.

(c) Warrants

During 2008, a total of 174,484 (2007 – 119,291) share purchase warrants were exercised at $11.80 per share resulting in proceeds to the Company of $2.1 million (2007 – $1.4 million). The equity component of the warrants exercised totalling $0.1 million (2007 – $0.1 million) was transferred to share capital.

On September 2, 2008, the remaining outstanding 1,429 warrants expired unexercised.

(d) Stock Options

As of December 31, 2008, the Company is authorized to grant up to 7,025,000 (2007 – 7,025,000) common share options to the employees, officers and directors of the Company and third-party service providers. As of December 31, 2008, 2,603,411 (2007 – 2,983,453) 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.

	2008					2007				
Exercise Price Range	Common Share Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Options Vested	Weighted Average Exercise Price of Options Exercisable	Common Share Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Options Vested	Weighted Average Exercise Price of Options Exercisable
$12.42 – $16.91	**323,200**	**$ 15.32**	**4.6**	**323,200**	**$ 15.32**	359,300	$ 15.16	5.5	359,300	$ 15.16
$19.11 – $22.27	**937,574**	**$ 21.64**	**8.2**	**371,802**	**$ 20.75**	411,302	$ 20.76	7.6	271,486	$ 20.74
$24.75 – $27.57	**1,697,857**	**$ 26.85**	**8.0**	**612,734**	**$ 26.28**	1,856,487	$ 26.81	9.0	175,429	$ 25.03
$12.42 – $27.57	**2,958,631**	**$ 23.94**	**7.7**	**1,307,736**	**$ 22.00**	2,627,089	$ 24.27	8.3	806,215	$ 19.19

In 2008, $1.6 million (2007 – $2.3 million) was recorded as an expense due to the vesting of options.

	2008		2007	
	Common Share Options	Weighted Average Exercise Price	Common Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	**2,627,089**	**$ 24.27**	1,568,968	$ 20.58
Granted	**625,376**	**$ 22.23**	1,322,052	$ 27.57
Exercised	**(48,500)**	**$ 15.60**	(192,998)	$ 16.66
Forefeited	**(245,334)**	**$ 24.82**	(70,933)	$ 24.81
Outstanding, end of year	**2,958,631**	**$ 23.94**	2,627,089	$ 24.27
Options vested, end of year	**1,307,736**	**$ 22.00**	806,215	$ 19.19
Weighted average remaining life (years)	**7.7**		8.3	

On March 3, 2008, the Company granted 605,376 options with a strike price of $22.27 and on November 6, 2008, 20,000 options with a strike price of $20.95, which had a total value of approximately $1.1 million at the time of issue. The fair value associated with the options issued was calculated using the Binomial Model for option valuation, assuming an average volatility of 14% 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). One third of the options vest on each of the three anniversary dates following 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"). As at December 31, 2008, a total of 1,250,000 common shares (2007 – 1,250,000) have been reserved for issuance under these plans.

As at December 31, 2008, 105,342 units (2007 – 77,569 units) have been granted under the DSUP, and $0.5 million (2007 – $0.4 million) has been recorded as an expense.

During 2008, 87,500 units (2007 – 68,000 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 19,161 (2007 – 14,169), and 71,959 units (2007 – 73,383) were settled. At December 31, 2008, 277,427 units (2007 – 242,725 units) were outstanding under RSU plans. The Company recorded an expense of $1.8 million in 2008 (2007 – $1.6 million) for the grants under the CEO RSU Plan and Employee RSU Plan.

(f) Dividend Reinvestment Plan ("DRIP")
The Company adopted a "DRIP" in May 2005 enabling shareholders who qualified to elect to participate in the DRIP, to 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.

On August 7, 2008, the Company announced that it was suspending the DRIP. Accordingly any dividend payable to shareholders subsequent to that date is not subject to the DRIP. The suspension is in effect unless and until further notice is given. The Company may consider from time to time reinstating the DRIP.

17. INTEREST AND OTHER INCOME

(thousands of dollars)	2008	2007
Realized (losses) gains on sale of marketable securities	$ (212)	$ 2,504
Change in cumulative unrealized (losses) gains on marketable securities held-for-trading	(1,638)	—
Interest, dividend and distribution income from marketable securities and cash investments	1,474	1,768
Dilution gain on investment in Equity One, Inc (note 7(b))	2,898	—
Gain (loss) on settlement of debt (note 14)	438	(483)
Gain on disposition of shopping centres	1,631	323
Gains on disposition of land	3,945	—
Realized gains on interest rate swaps not designated as hedges	—	161
Unrealized gains on interest rate swaps not designated as hedges	—	643
Interest income from development loans	539	658
Other income	347	(24)
	$ 9,422	$ 5,550

18. INTEREST EXPENSE

(thousands of dollars)	2008	2007
Mortgage, loans and credit facilities	$ 65,700	$ 70,807
Senior unsecured debentures	31,887	30,071
Convertible debentures	13,632	12,685
Other non-cash interest expense	2,466	2,480
Interest expense	113,685	116,043
Convertible debenture interest paid in common shares (note 15)	(12,891)	(12,048)
Change in accrued interest	560	(2,362)
Effective interest rate in excess of coupon rate on debentures	(864)	(696)
Interest paid in excess of coupon interest on assumed mortgages	1,436	1,890
Other non-cash interest expense	(2,466)	(2,480)
Interest capitalized to land and shopping centres under development	20,723	15,601
Cash interest paid	$ 120,183	$ 115,948

19. INCOME TAXES

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

The following table summarizes the provision for income taxes:

(thousands of dollars)	2008	2007
Provision for income taxes on income at the combined Canadian federal and provincial income tax rate of 32.0% (2007 – 34.4%)	$ 17,817	$ 14,784
Increase (decrease) in the provision for income taxes due to the following items:		
U.S. operations	1,548	(40)
Non-deductible interest expense	276	240
Change in future income tax rate	(2,515)	(5,250)
Expenses not deductible for tax purposes	1,344	1,697
Other items	(221)	1,171
Income taxes	$ 18,249	$ 12,602

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

(thousands of dollars)	2008	2007
Losses available for carry-forward	$ 11,636	$ 7,890
Canadian and U.S. minimum tax credits	884	761
Other	(543)	1,080
	$ 11,977	$ 9,731

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

(thousands of dollars)	2008	2007
Investments	$ 13,880	$ 13,880
Shopping centres	43,676	25,178
Other	(1,936)	7,699
	$ 55,620	$ 46,757

At December 31, 2008, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately $41.3 million (2007 – $29.0 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, 2009 and December 31, 2028.

20. PER SHARE CALCULATIONS

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

(thousands of dollars, except per share amounts)	2008	2007
Basic and diluted net income available to common shareholders	$ 37,430	$ 30,353
Denominator		
Weighted average shares outstanding for basic per share amounts:	87,127,555	77,996,827
Outstanding warrants	44,037	132,477
Outstanding options	88,632	298,279
Denominator for diluted net income available to common shareholders	87,260,224	78,427,583
Basic and diluted earnings per share	$ 0.43	$ 0.39

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

	Number of Shares if Converted or Exercised			
	Exercise Price	2008	Exercise Price	2007
Common share options	$ 20.80 – $ 27.57	2,625,431	$27.57	1,300,352
Convertible debentures – 5.5%	$ 27.00	8,629,630	$27.00	8,629,630

21. RISK MANAGEMENT

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

(a) Interest Rate Risk

The Company attempts to structure its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate 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 $17.7 million (2007 – negative value of $0.7 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. No one tenant represents more than 7.1% of annualized minimum rent. A tenant's success over the term of its lease and its ability to fulfill its lease obligations, is subject to many factors. There can be no assurance that a tenant will be able to fullfil all of its existing commitments and leases up to its 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. 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 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.

Based on the carrying value of the Company's net assets in the United States, a 1% change in prevailing exchange rates would result in a net change of $0.8 million to the Company's unrealized foreign currency adjustment included in Other Comprehensive Income.

(d) Fair Values of Financial Instruments

The fair values of the Company's net working capital items approximate their recorded values at December 31, 2008 and 2007 due to their short-term nature. The fair values of the Company's other financial assets and liabilities are disclosed in notes 8, 12, 14 and 15.

(e) Liquidity Risk

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

An analysis of the Company's contractual maturities of its material financial liabilities is set out below:

	Payments Due by Period				
(thousands of dollars)	Total	2009	2010–2011	2012–2013	Thereafter
Mortgages					
Scheduled amortization	$ 193,533	$ 31,223	$ 59,738	$ 51,060	$ 51,512
Payments on maturity	1,017,868	60,477	173,860	263,974	519,557
Total mortgage obligations	1,211,401	91,700	233,598	315,034	571,069
Canadian revolving credit facilities	209,190	—	209,190	—	—
U.S. term loans	123,596	8,222	115,374	—	—
U.S. revolving credit facilities	30,450	—	30,450	—	—
Senior unsecured debentures	597,000	—	200,000	197,000	200,000
Land leases	18,389	801	1,602	1,607	14,379
Total contractual obligations	$ 2,190,026	$ 100,723	$ 790,214	$ 513,641	$ 785,448

The Company manages its liquidity risk by staggering debt maturities; renegotiating expiring credit arrangements proactively; using undrawn lines of credit; and issuing equity when considered appropriate. This amount includes $209.2 million that was drawn on the Company's Canadian revolving credit facility with a maturity of March 2010. Subsequent to Decmber 31, 2008, this facility was refinanced with a maturity of March 2012 as disclosed in Note 28(e).

In addition, the Company has $20.0 million of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's obligations related to its development projects.

22. SUPPLEMENTAL OTHER COMPREHENSIVE LOSS INFORMATION

(a) The tax effects relating to each component of other comprehensive loss are as follows:

(Years ended December 31)	2008			2007		
(thousands of dollars)	Before-tax Amount	Tax expense (recovery)	Net-of-tax Amount	Before-tax Amount	Tax expense (recovery)	Net-of-tax Amount
Unrealized foreign currency gain (loss) on translating self-sustaining foreign operations	$ 11,319	$ —	$ 11,319	$ (9,950)	$ —	$ (9,950)
Other comprehensive losses of Equity One, Inc.	(1,944)	—	(1,944)	(320)	(106)	(214)
Losses on cash flow hedges of interest rates	(16,443)	(4,779)	(11,664)	(2,736)	(906)	(1,830)
Change in cumulative unrealized gain on available-for-sale marketable securities	(6,590)	(1,053)	(5,537)	(241)	(32)	(209)
Other comprehensive loss	$ (13,658)	$ (5,832)	$ (7,826)	$ (13,247)	$ (1,044)	$ (12,203)

(b) Accumulated Other Comprehensive Loss

(Years ended December 31)	2008			2007			
(thousands of dollars)	Opening Balance January 1 2008	Net Change During the Year	Closing Balance December 31 2008	Opening Balance January 1 2007	Opening Adjustments	Net Change During the Year	Closing Balance December 31 2007
Unrealized foreign currency (loss) gain on translating self-sustaining foreign operations	$ (24,120)	$ 11,319	$ (12,801)	$ (14,170)	$ —	$ (9,950)	$ (24,120)
Other comprehensive losses of Equity One, Inc.	(1,307)	(1,944)	(3,251)	—	(1,093)	(214)	(1,307)
Losses on cash flow hedges of interest rates	(508)	(11,664)	(12,172)	—	1,322	(1,830)	(508)
Change in cumulative unrealized gain on available-for-sale marketable securities	(30)	(5,537)	(5,567)	—	179	(209)	(30)
Accumulated other comprehensive loss	$ (25,965)	$ (7,826)	$ (33,791)	$ (14,170)	$ 408	$ (12,203)	$ (25,965)

The Company does not expect any of the balance of the Accumulated Other Comprehensive Loss at December 31, 2008 to be reclassified to net income in 2009.

23. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash from operating activities

(thousands of dollars)	2008	2007
Amortization	$ 86,788	$ 79,828
Amortization of above- and below-market leases	(2,253)	(2,122)
Rent revenue recognized on a straight-line basis	(5,374)	(6,753)
Gain on disposition of income-producing property (note 17)	(1,631)	(323)
Gains on disposition of land (note 17)	(3,945)	—
Realized losses (gains) on sale of marketable securities (note 17)	212	(2,504)
Change in cumulative unrealized losses (gains) on marketable securities (note 17)	1,638	—
(Gain) loss on settlement of debt (note 14)	(438)	483
Non-cash compensation expense	3,899	4,295
Interest paid in excess of effective interest on assumed mortgages (note 18)	(1,436)	(1,890)
Debenture interest expense in excess of coupon (note 18)	864	696
Convertible debenture interest paid in common shares (note 15)	12,891	12,048
Other non-cash interest expense (note 18)	2,466	2,480
Equity income from Equity One, Inc. (note 7)	(8,716)	(14,375)
Dilution gain on investment in Equity One, Inc. (note 7(b))	(2,898)	—
Future income taxes	16,264	10,930
Unrealized gains on interest rate swaps not designated as hedges	—	(643)
	$ 98,331	$ 82,150

(b) Net change in non-cash operating items

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

(thousands of dollars)	2008	2007
Amounts receivable	$ (3,909)	$ (1,600)
Prepaid expenses	(3,789)	(2,356)
Trade payables and accruals	4,684	7,407
Tenant security and other deposits	(332)	2,331
Other working capital changes	658	761
	$ (2,688)	$ 6,543

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

(thousands of dollars)	2008	2007
(Increase) decrease in loans and mortgages receivable	$ (1,507)	$ 1,538
Investment in marketable securities	(37,110)	(32,556)
Return of capital from investments in marketable securities	623	339
Proceeds from disposition of marketable securities	7,474	45,031
	$ (30,520)	$ 14,352

(d) Cash and cash equivalents

(thousands of dollars)	2008	2007
Cash	$ 6,975	$ 6,458
Term deposits	288	3,993
	$ 7,263	$ 10,451

(e) Interest and income taxes

(thousands of dollars)	2008	2007
Cash income taxes paid	$ 2,251	$ 787
Cash interest paid (note 18)	$ 120,183	$ 115,948

24. 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, 2008, is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	$ 410,192	$ —	$ 410,192
Property operating costs	150,601	—	150,601
Income before the undernoted items	259,591	—	259,591
Equity income from Equity One, Inc.	—	8,716	8,716
Interest and other income	5,749	3,673	9,422
Interest expense	106,523	7,162	113,685
Corporate expenses	20,991	586	21,577
Income before amortization	137,826	4,641	142,467
Amortization	86,725	63	86,788
Income before income taxes	$ 51,101	4,578	55,679

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

(thousands of dollars)	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	5,030	520	5,550
Interest expense	106,376	9,667	116,043
Corporate expenses	22,751	793	23,544
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

Canadian operations include the following:

Year ended December 31, 2008 (thousands of dollars)	Eastern Region (1)	Central Region (1)	Western Region (1)	Subtotal	Other (2)	Total
Property rental revenue	$ 94,988	$ 191,853	$ 116,820	$ 403,661	$ 6,531	$ 410,192
Property operating costs	40,408	73,569	37,933	151,910	(1,309)	150,601
Net operating income	$ 54,580	$ 118,284	$ 78,887	$ 251,751	$ 7,840	$ 259,591

Year ended December 31, 2007 (thousands of dollars)	Eastern Region (1)	Central Region (1)	Western Region (1)	Subtotal	Other (2)	Total
Property rental revenue	$ 88,161	$ 177,379	$ 104,049	$ 369,589	$ 7,302	$ 376,891
Property operating costs	34,068	68,436	33,424	135,928	(1,482)	134,446
Net operating income	$ 54,093	$ 108,943	$ 70,625	$ 233,661	$ 8,784	$ 242,445

The net book value of real estate assets is as follows:

December 31, 2008 (thousands of dollars)	Eastern Region (1)	Central Region (1)	Western Region (1)	Subtotal	Other	Total
Land and shopping centres under development	$ 43,204	$ 145,845	$ 92,910	$ 281,959	—	$ 281,959
Net book value of other real estate assets (3)	636,717	1,442,702	978,214	3,057,633	—	3,057,633
Net book value of real estate assets	$ 679,921	$ 1,588,547	$ 1,071,124	$ 3,339,592	—	$ 3,339,592

December 31, 2007 (thousands of dollars)	Eastern Region (1)	Central Region (1)	Western Region (1)	Subtotal	Other	Total
Land and shopping centres under development	$ 62,575	$ 148,862	$ 72,640	$ 284,077	$ —	$ 284,077
Net book value of other real estate assets (3)	566,086	1,347,155	902,586	2,815,827	—	2,815,827
Net book value of real estate assets	$ 628,661	$ 1,496,017	$ 975,226	$3,099,904	$ —	$3,099,904

Expenditures for additions to capital assets are as follows:

Year ended December 31, 2008 (thousands of dollars)	Eastern Region (1)	Central Region (1)	Western Region (1)	Subtotal	Other	Total
Deferred leasing costs	$ 1,202	$ 1,806	$ 1,025	$ 4,033	$ —	$ 4,033
Expenditures on shopping centres	6,088	8,303	7,831	22,222	—	22,222
Expenditures on shopping centres under development	57,198	102,203	68,374	227,775	—	227,775
Total expenditures	$ 64,488	$ 112,312	$ 77,230	$ 254,030	$ —	$ 254,030

Year ended December 31, 2007 *(thousands of dollars)*	Eastern Region [1]	Central Region [1]	Western Region [1]	Subtotal	Other	Total
Deferred leasing costs	$ 911	$ 1,875	$ 643	$ 3,429	$ —	$ 3,429
Expenditures on shopping centres	6,254	10,503	6,961	23,718	—	23,718
Expenditures on shopping centres under development	40,015	61,080	42,649	143,744	—	143,744
Total expenditures	$ 47,180	$ 73,458	$ 50,253	$ 170,891	$ —	$ 170,891

[1] Eastern region includes properties located in Quebec, Nova Scotia and Newfoundland.
Central region includes properties located in Ontario.
Western region includes properties located in Saskatchewan, Alberta and British Columbia.
[2] Other items are principally rental revenue recorded on a straight-line basis and market rent adjustments.
[3] Net book value of other real estate assets is comprised of the net book value of shopping centres, deferred costs and intangible assets less intangible liabilities.

25. PROPORTIONATE CONSOLIDATION

The Company is a participant in 16 (2007 – 15) partnership, co-ownership and limited liability corporate ventures that own land, shopping centres, and shopping centres under development (collectively the "joint ventures"). 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:

(thousands of dollars)	**2008**	2007
Assets	**$ 176,845**	$ 163,619
Liabilities	**$ 93,235**	$ 92,663
Revenues	**$ 26,285**	$ 26,192
Expenses	**19,991**	19,955
Net income	**$ 6,294**	$ 6,237
Cash flows provided by (used in):		
Operating activities	**$ 10,511**	$ 10,011
Investing activities	**$ (15,874)**	$ 2,083
Financing activities	**$ 5,773**	$ (10,508)

Cash and cash equivalents held pursuant to terms of joint venture agreements amount to $4.4 million (2007 – $4.0 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 26 (c)).

26. 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, 2008, 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 $45.6 million (2007 – $46.7 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 $20.0 million (2007 – $11.9 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 $18.4 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.

27. RELATED PARTY TRANSACTIONS

(a) A subsidiary of the Company's majority shareholder, Gazit-Globe Ltd. ("Gazit"), reimburses the Company for certain accounting and administrative services provided by the Company. The total amount reimbursed during 2008 was $1,171,000 (2007 – $976,000) which primarily consists of appraisal and accounting costs related to preparation of financial reporting in accordance with International Financial Reporting Standards. Gazit is also a tenant at a property owned by the Company. Total rental payments received during 2008 amounted to $89,000 (2007 – $36,000). At December 31, 2008, $212,500 due from Gazit was included in amounts receivable (2007 – $30,400) and collected subsequent to year end.

In addition, subsidiary companies of Gazit subscribe to the Company's convertible debentures as described in Note 15.

(b) Included in amounts receivable at December 31, 2008 are loans due from employees totalling $250,000 (2007 – $150,000). The interest only loans bear interest at the rate prescribed by the Canada Revenue Agency for employee loans and are fully secured against restricted share units and options to purchase common shares held by the employees. $150,000 of the loans mature in December 2010 and $100,000 in May 2013.

28. SUBSEQUENT EVENTS

(a) Completion of Mortgages

Since January 1, 2009 the Company has completed $64 million in mortgage financing on three properties and a top up of an existing mortgage. This financing carries a weighted average interest rate of 5.95% and weighted average term of 7.58 years.

(b) Completion of a three year, $75,000,000 Secured Revolving Credit Facility

On January 29, 2009, the Company closed on a three year, $75 million secured revolving credit facility with the Bank of Nova Scotia.

(c) ***Investment in Allied Properties Real Estate Investment Trust***

On February 9, 2009 the Company announced it had agreed to acquire from institutional investors an aggregate of 1,766,800 units ("Units") of Allied Properties REIT in exchange for common shares of First Capital Realty at a ratio of 0.81 First Capital Realty shares per Unit. The acquisitions closed February 17, 2009. Together with the Units owned by the Company that were acquired with cash, First Capital Realty owns 3,453,100 Units, representing approximately 11% of the issued and outstanding Units.

The Units have been acquired for investment purposes; however, First Capital Realty has indicated to Allied that it would like to engage in discussions with Allied to explore business opportunities, which may or may not result in a business combination; at this time no such discussions are underway. First Capital Realty does not currently intend to initiate a formal take-over bid for Allied. First Capital Realty may, in the future, take such actions in respect of its holdings as it may deem appropriate in light of the circumstances then existing, including the purchase of additional securities of Allied through open market purchases or privately negotiated transactions, or the sale of all or a portion of its holdings in the open market or in privately negotiated transactions to one or more purchasers.

(d) ***Interest on Convertible Debentures***

On February 18, 2009, the Company announced that it will pay the interest due on March 31, 2009 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, 2009. The interest payment due is approximately $6.4 million.

It is the current intention of the Company to satisfy its obligations to pay principal and interest on its 5.50% debentures by the issuance of common shares. Since issuance, all interest payments have been made using shares.

(e) ***Completion of a three year, $450,000,000 Secured Revolving Credit Facility***

On March 5, 2009 the Company closed a three year, $450 million Secured Revolving Credit Facility with a syndicate of ten banks jointly led by RBC Capital Markets, TD Securities, and BMO Capital Markets. The syndicate consists of seven Canadian Banks and three Schedule III Chartered Banks. The new facility was used to replace the Company's existing three year $350 million Senior Unsecured Revolving Credit Facility maturing March 2010. The facility's initial funding was at an interest rate of 4.16%.

29. COMPARATIVE AMOUNTS

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

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Annual Shareholders' Meeting
May 15, 2009
The Design Exchange
234 Bay Street
Toronto, Ontario
at 11.00 a.m.

Toronto Stock Exchange Listings
Common Shares: FCR
5.50% Convertible Cdn Debentures:
FCR.DB.A
5.50% Convertible US Debentures:
FCR.DB.B

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www.firstcapitalrealty.ca

LOCATION LOCATION LOCATION

First Capital Realty takes a highly disciplined approach to the development and redevelopment of our properties across Canada. We build value by creating and managing high quality properties with long-term appeal in neighbourhoods and communities that promise good and growing customer dedication well into the future. Knowledgeable, sophisticated retailers seek to position themselves in the best located, best managed and most visible and accessible locations. That's the story of our growing portfolio. And that's our value to investors.

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SÉLECTION

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Halton Hills
•VILLAGE•

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Rexall
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Rexall DRUGSTORE

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