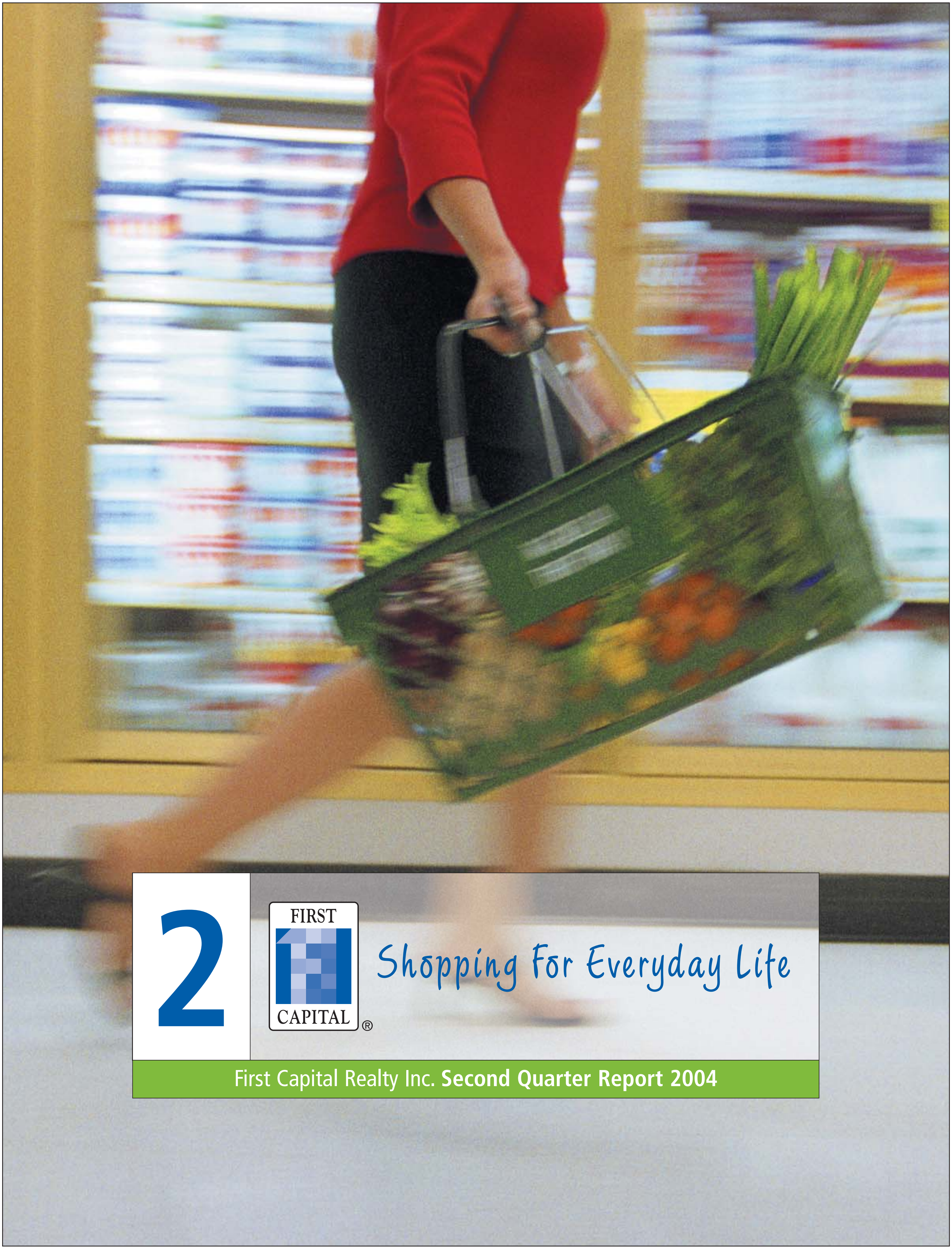


2

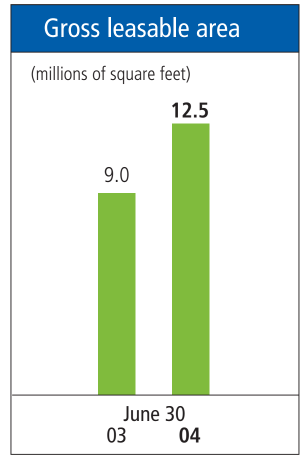
FIRST CAPITAL®

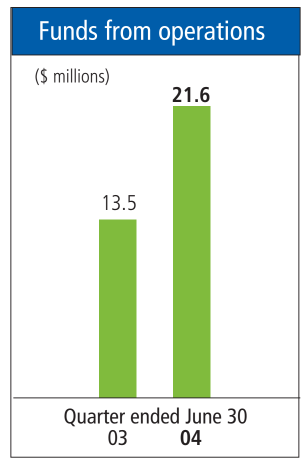
Shopping For Everyday Life

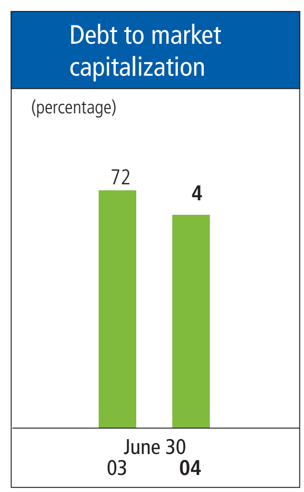
First Capital Realty Inc. **Second Quarter Report 2004**

First Capital Realty Inc.

First Capital Realty Inc. (TSX:FCR) is a growth-oriented real estate corporation focused on the ownership and development of neighbourhood and community supermarket anchored shopping centres in growing metropolitan areas in Canada. First Capital is also the second largest shareholder of Equity One, Inc. (NYSE:EQY), one of the largest shopping centre REITs in the southern United States.







Financial Highlights

	Six months ended June 30	
($000s, except share and property data)	**2004**	2003
Total real estate investments	**$ 1,724,972**	$ 1,237,131
Number of Canadian properties	**101**	72
Funds from operations (FFO)	**$ 40,159**	$ 26,314
FFO per common share (diluted)	**$ 0.71**	$ 0.69
Property rental revenue	**$ 101,067**	$ 72,950
Net operating income - Canadian properties	**$ 61,459**	$ 44,297
Equity Income from Equity One Inc.	**$ 9,124**	$ 10,648
Net income (note 1)	**$ 16,384**	$ 23,808
Net income - adjusted (note 1)	**$ 21,697**	$ 14,474
Weighted average common shares (diluted)	**58,121,729**	41,039,201
Dividends paid per common share	**$ 0.58**	$ 0.56

Note 1: Net income-adjusted for the six months ended June 30 was increased by $5.3 million, net of tax due to the adoption of a new accounting standard which increased amortization expense (non-cash) in 2004. In addition, net income-adjusted was reduced by $9.3 million, net of tax for a dilution gain (non-cash) recorded in 2003 on the Investment in Equity One, nil in 2004.

Second Quarter Highlights

- Invested over $130 million in income producing properties and development activities.
- Added 841,000 square feet of gross leasable area from acquisition of 694,000 square feet in six income producing properties and 147,000 square feet of development coming on-line.
- Acquired first property in the Vancouver area, and completed a second acquisition in this market subsequent to quarter end.
- Net operating income (NOI) increases 40% to $31.9 million over the prior year second quarter.
- Same property NOI increases 2.5%.
- Funds from operations (FFO) rise 58% to $21.3 million over the prior year second quarter.
- FFO of $0.36 per diluted share compared to $0.35 in the prior year second quarter.
- Debt to market capitalization improved to 64%, compared to 72% at June 30, 2003.

Report to shareholders

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

This MD&A may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business results of operations. The forward-looking statements use the word "believe", "expect", "anticipate", "intend", "estimate", "assume", "project" and other similar terms, which do not relate to historical matters. Such forward-looking statements involve known and unknown risks and uncertainties and other factors that may cause the actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

These forward-looking statements are made as of August 10, 2004 and First Capital Realty assumes no obligation to update or revise them to reflect new events or circumstances.

INTRODUCTION

The Management's Discussion and Analysis ("MD&A") of financial condition is intended to provide readers with an assessment of our performance during the second quarter of the past two years and summarizes our results of operations and financial condition for the six month period ended June 30, 2004. It should be read in conjunction with the unaudited consolidated interim financial statements and notes included on page 10 - 23 of this report and the Company's 2003 annual MD&A contained in the Company's 2003 Annual Report. Additional information, including the Company's Annual Report and Annual Information Form are available on Sedar's website at www.sedar.com and on the Company's website at www.firstcapitalrealty.ca.

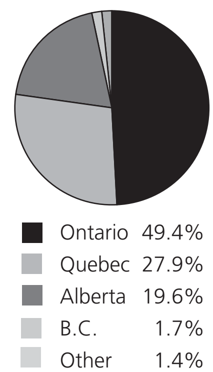
BUSINESS AND OPERATIONS OVERVIEW

First Capital Realty Inc. (TSX:FCR) is a growth-oriented real estate corporation focused on the ownership and development of neighbourhood and community supermarket anchored shopping centres in growing metropolitan areas in Canada. As of June 30, 2004 the Company owns interests in 101 properties, including five under development with approximately 12.5 million square feet of gross leasable area. Ninety-three of these properties are anchored by a supermarket and/or drugstore.

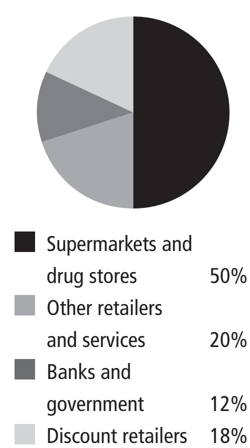
The Company also owns 12.6 million shares (approximately 18%) of Equity One, Inc., a neighbourhood and community shopping centre REIT operating primarily in the southern United States. The assets of Equity One are similar to those of the Company and at June 30, 2004 comprised 191 properties totalling 21.0 million square feet. Including properties held through its investment in Equity One, at June 30, 2004 the Company had interests in 292 properties totalling approximately 33.5 million square feet of gross leasable area.

During the second quarter of 2004, the Company's activities were focused on achieving long term objectives of growing our business and our funds from operations. We invested over $130 million in income producing properties and development projects; we were successful in entering the Vancouver area with our first property acquisition in the province of British Columbia; we continued to improve the performance of our existing properties; and we have accomplished this while further strengthening our balance sheet.

Annual minimum rent by province



Annual minimum rent by tenant type



During the second quarter of 2004, the Company acquired six income producing shopping centres, three in Ontario, two in Quebec and one in Vancouver, totalling approximately 694,000 square feet of gross leasable area. The aggregate acquisition amount of $93.9 million, including closing costs, was funded through the assumption of $39.3 million in mortgage debt, with the balance paid in cash.

Year-to-date through June 30, 2004, the Company acquired a total of 17 income producing properties aggregating approximately 1.5 million square feet of gross leasable area. The amount invested totals $169 million, including closing costs, and was funded through $49.1 million in assumed mortgages, $14.9 million in new mortgage financing, $2.8 million with a vendor take-back mortgage, with the balance paid in cash.

Subsequent to the quarter end, the Company acquired two additional income producing properties. York Mills Gardens is a 90,000 square foot neighbourhood shopping centre in a prime urban location in Toronto, Ontario. The total purchase price of $38.3 million, including closing costs, was funded through the assumption of a $20.4 million mortgage at 8.29%, with the balance paid in cash. Time Marketplace is a newly constructed 38,000 square foot shopping centre in North Vancouver, British Columbia. Acquisition costs totalled $13.2 million, including closing costs, and was funded through $9.1 million in long-term debt at 6.23% interest, with the balance paid in cash. This brings the Company's total acquisition of income producing properties in 2004 to 1.7 million square feet of gross leasable area for a total investment of $221 million.

The Company's properties are summarized as follows:

June 30			2004			2003
	% Occupied	Number of Properties	Gross Leasable Area (000s sq. ft.)	% Occupied	Number of Properties	Gross Leasable Area (000s sq. ft.)
Ontario	94.7%	42	5,887	92.8%	30	4,400
Quebec	93.2%	40	3,967	91.5%	27	2,888
Western Canada	92.9%	17	2,543	90.4%	13	1,629
Maritimes	87.6%	2	92	89.4%	2	92
Total	93.8%	101	12,489	91.9%	72	9,009

Management intends to continue to grow the business, by investing in neighbourhood and community shopping centre properties that are supermarket and/or drug store anchored.

The Company also pursues selective development and redevelopment activities, either directly or with joint-venture partners. These investments generate higher returns and allow better participation in growth markets. Investments in development and redevelopment activities typically comprise approximately 5% of the Company's total assets at any one time.

During the second quarter, three land sites for future development were acquired for a total purchase price of $10.8 million, funded with cash. Two of these land sites subsequently commenced development, with anchor and major tenant leases committed before acquisition. Strandherd Crossing, a 10.5 acre site in Barrhaven, a suburb of Ottawa, was purchased for $5.8 million. Long-term leases have been committed for a 41,000 square foot supermarket, a 16,000 square foot drugstore and a 6,500 square foot Canadian chartered bank branch. Construction has begun on approximately 90,000 square feet of the planned 120,000 square foot shopping centre. A one acre site was also acquired in Waterloo, Ontario for the construction of a 15,300 square foot drugstore. This property is near the Company's existing Bridgeport Plaza shopping centre. The third land site is a prime 22 acre site east of Montreal acquired for $3.8 million for future development.

The Company has also taken advantage of opportunities to expand the potential developable area of its portfolio by acquiring five parcels of land adjacent to its existing shopping centre properties. These parcels, totalling seven acres of land, were acquired for $8.8 million, funded in cash.

Year-to-date, the Company has acquired six land sites and five parcels of land at existing centres comprising 61 acres with 689,000 developable square feet for a total investment of $26 million.

Development of 147,000 square feet was completed during the second quarter at an average lease rate of $16.46 per square foot. Year-to-date through June 30, the Company has brought on-line 292,000 square feet at an average lease rate of $17.10 per square foot. Of the space completed during the year and second quarter, only 8,000 square feet is not leased. These successfully completed development projects highlight the future value of our investment in development initiatives that are currently not generating income, but are expected to contribute significantly to our future growth.

The Company's development sites and properties as at June 30, 2004 are summarized as follows:

Property Name	Number of Sites/Properties	Acreage	Developable Sq. Ft.
Land parcels adjacent to/part of existing properties	27	58	761,250
Land sites held for future development	5	80	710,000
Properties under development	5	50	313,300
Additional developable square footage in existing properties	8	-	175,000
			1,959,550

In addition to the acquisitions of income producing properties and development assets, the Company has invested $17 million during the second quarter in its active development projects as well as in some improvements in its existing shopping centre portfolio. Year-to-date through June 30, investments in these activities total $34 million.

LEASING AND OCCUPANCY

Leasing activity in the second quarter resulted in net new leasing of 159,000 square feet, including development coming on line, and renewal leasing of 75,000 square feet. For the six months ended June 30, 2004 net new leasing totalled 335,000 square feet including development coming on line, and renewal leasing of 171,000 square feet. The average rate per occupied square foot at June 30, 2004 increased to $12.85 from $12.66 at January 1, 2004 and $12.18 at June 30, 2003.

The portfolio occupancy at June 30, 2004 of 93.8% increased from 93.1% at December 31, 2003 and 91.9% at June 30, 2003.

Properties acquired during the three and six month periods to June 30, 2004 have an average lease rate per occupied square foot of $15.56 and $12.67, respectively, and occupancy of 93.4% and 91.9%.

Report to Shareholders continued

FINANCIAL REVIEW

(unaudited) ($000s except share and other data)	Three months ended **June 30** **2004**	 June 30 2003	Six months ended **June 30** **2004**	 June 30 2003
Property Rental Revenue	**52,613**	37,002	**101,067**	72,950
Net Operating Income	**31,912**	22,714	**61,459**	44,297
Net Income	**8,492**	8,892	**16,384**	23,808
Net Income/share	**0.08**	0.17	**0.16**	0.66
Net Income/diluted share	**0.08**	0.17	**0.16**	0.61
Funds from operations	**21,294**	13,451	**40,159**	26,314
Funds from operations/ diluted share	**0.36**	0.35	**0.71**	0.69
Weighted average shares outstanding	**42,283,087**	20,029,131	**39,881,548**	19,685,725
Weighted average diluted shares	**60,332,440**	41,760,502	**58,121,729**	41,039,201
Dividends paid/share	**0.29**	0.28	**0.58**	0.56
Total assets			**1,776,756**	1,323,745
Total mortgages and credit facilities			**918,485**	632,647
Shareholders' equity			**772,910**	588,414
OTHER DATA				
Number of properties			**101**	72
Gross leasable area			**12,489,000**	9,009,000
Occupancy %			**93.8%**	91.9%

Funds From Operations

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

The Company's funds from operations are calculated below:

	Three months ended		Six months ended	
(unaudited)	**June 30**	June 30	**June 30**	June 30
(thousands of dollars)	**2004**	2003	**2004**	2003
Net income for the period	**$ 8,492**	$ 8,892	**$ 16,384**	$ 23,808
Add (deduct):				
Amortization	**8,087**	2,840	**15,772**	5,426
Gain on disposition of marketable securities	-	(109)	-	(71)
Loss on disposition of land and shopping centres	-	275	-	275
Non-cash compensation expense	**327**	-	**418**	-
Equity income from Equity One, Inc	**(4,428)**	(5,333)	**(9,124)**	(10,648)
Dividend income from Equity One, Inc	**4,663**	4,667	**9,282**	9,631
Dilution gain on investment in Equity One, Inc	**-**	(3,129)	**-**	(14,934)
Future income taxes	**4,153**	5,348	**7,427**	12,827
Funds from operations	**$ 21,294**	$ 13,451	**$ 40,159**	$ 26,314

Funds from operations for the three months ended June 30, 2004 totalled $21.3 million or 36 cents per diluted common share, compared to $13.5 million or 35 cents in the second quarter of 2003. FFO for the first half of 2004 totalled $40.2 million or 71 cents per diluted share, compared to $26.3 million or 69 cents per diluted share for the comparable period in 2003. The increases in FFO in the three and six month periods respectively are primarily due to the Company's acquisitions activity and development projects coming on-line.

The increases in funds from operations are primarily due to the Company's acquisitions activity and development projects coming on-line

Net Operating Income

Net operating income for the three months ended June 30, 2004 totalled $31.9 million, compared to $22.7 million in the second quarter of 2003, an increase of $9.2 million or 40%. In the six month period ended June 30, 2004, net operating income totalled $61.5 million, compared to $44.3 million for the same prior year period, an increase of $17.2 million or 39%. Current year acquisitions contributed $3.1 million to the increase; the incremental effect of 2003 acquisitions contributed $9.7 million to the increase; completed development projects contributed $2.6 million of the increase; the amortization of market rent adjustments contributed $0.1 million of the increase; and same property NOI grew by 2.1% and contributed $0.7 million.

In January, 2004, the Company adopted the required change in accounting for recognition of base rental income from leases with contractual rent increases to a straight-line basis. The change in accounting policy was applied on a prospective basis and was adopted by all real estate entities in Canada. The impact of the implementation of this policy has resulted in an increase in net operating income of approximately $0.7 million and $1.3 million in the three and six month periods ended June 30, 2004 and an increase to diluted FFO per share of approximately one cent and two cents, respectively.

Interest Expense

Mortgages and credit facilities payable have increased as a result of the Company's acquisition and development activities and total $918 million at June 30, 2004 compared with $633 million at June 30, 2003. Interest expense totalled $12.9 million and $25.4 million, in the three and six month periods ended June 30, 2004, respectively, compared to $10.8 million and $21.2 million in the same prior year periods, respectively.

The increase in interest expense from increases in mortgages and credit facilities payable has been somewhat offset by a decrease in the Company's weighted average fixed interest rate to 6.8% at June 30, 2004 from 6.9% at June 30, 2003.

Amortization Expense

Effective January 1, 2004, the Company adopted the required change in the accounting standard for amortization of buildings from the 5% sinking fund method to the straight-line method. This change, which was adopted by all real estate entities in Canada, has resulted in an increase of approximately $4.4 million and $8.5 million in amortization expense in the three and six month periods ended June 30, 2004, respectively.

Amortization expense has also increased due to the acquisition of properties over the past twelve months.

Equity One

The Company received dividends from Equity One of US$3.5 million, or US$0.28 per share, in the three month period ended June 30, 2004, compared to US$3.3 million, or US$0.27 per share, in the three month period ended June 30, 2003. The Canadian dollar equivalent of this dividend is $4.7 million in the second quarter of 2004 and 2003. The dividend increase has been offset by a decline in the average exchange rate from $1.40 to $1.36 for the three month period ended June 30, 2004. For the first six months of 2004, the Canadian dollar equivalent of the Equity One dividend declined to $9.3 million from $9.6 million in the prior year comparative periods as the average exchange rate declined from $1.45 in 2003 to $1.34 in 2004 for the six month period ended June 30.

In 2003, a $3.1 million and $14.9 million dilution gain was recognized on the investment in Equity One in the three and six months periods ended June 30, respectively. These gains were non-cash and contributed $1.9 million and $9.3 million to after tax income in the prior year periods.

Net Income

Net income for the three and six months ended June 30, 2004 amounted to $8.5 million and $16.4 million, or 8 cents and 16 cents per diluted share.

Financing Activities

The Company has continued to raise common equity to support its growth plans and further strengthen the balance sheet.

The Company has issued 2.4 million and 8.5 million common shares for the three and six month periods ended June 30, 2004, respectively, through an equity offering on a bought deal basis, the exercise of warrants and options and the payment of interest on certain of its convertible debentures in shares. In total, these transactions increased the Company's basic market capitalization to $709 million and a public float of $214 million at June 30, 2004 compared to a market capitalization of $558 million and a public float of $150 million at December 31, 2003.

These financing activities have provided funds to the Company totalling $30.7 million and $119.3 million in the three and six month periods to June 30, 2004 and have allowed the Company to grow its portfolio while reducing leverage and increasing the liquidity of its shares.

The Company announced subsequent to quarter end, that on August 30, 2004 it will redeem all of its outstanding 7.875% convertible unsecured subordinated debentures (FCR.DB.B.) (the "7.875% Debentures") for cash, together with accrued and unpaid interest. Holders of the 7.875% Debentures may convert their debentures into common shares at a conversion price of $16.43 subject to the terms and conditions of the trust indenture.

Canadian subsidiaries of Gazit-Globe (1982) Ltd. ("Gazit") and Alony-Hetz Properties & Investments Ltd., ("Alony-Hetz") which held $39.7 million and $11.1 million principal amount of 7.875% Debentures, respectively, at July 22, 2004, have each advised the Company that they will convert their 7.875% Debentures into common shares at the $16.43 conversion price prior to the redemption date.

In addition, Gazit and Alony-Hetz, through Canadian subsidiaries, have agreed to subscribe for an aggregate of 2,000,000 common shares on a private placement basis at a price of $16.00 per share net proceeds to the Company, subject to regulatory approval. The private placement provides funds to the Company of $32 million that will be utilized, along with the Company's credit facilities, to fund the redemption of the 7.875% Debentures.

The Company believes that it is an opportune time to call the 7.875% Debentures for redemption considering the coupon rate and that the dilution is already fully reflected in the diluted per share numbers. The additional equity will further strengthen the Company's balance sheet.

OUTLOOK

The second quarter has seen First Capital Realty make progress towards our 2004 goals:

- to increase the size of the Company's income-producing portfolio while maintaining asset quality;
- to increase the cash flow from operations through increased rental rates and portfolio occupancy;
- to continue to grow the business at approximately the same debt ratio as at the 2003 year-end; and
- to increase the number of the Company's publicly traded common shares and the public market capitalization.

Report to Shareholders continued

First Capital Realty's 2004 diluted FFO per share guidance is being narrowed to $1.45 to $1.48 taking into consideration a projected share price of $16.50, the U.S. exchange rate at $1.33, and the 2004 acquisitions forecast now at $230 million.

First Capital Realty has a very focused and clear strategy on managing and growing the Company's business, and management believes it is well positioned to continue to deliver increased value to investors. The Company's proactive management of its assets, aggressive leasing efforts and successful development initiatives have resulted in increased occupancy and net operating income. The Company's superior locations and well maintained properties should continue to attract and retain tenants that provide customers with daily necessities. The income property acquisitions during the first six months of 2004 are substantially all supermarket anchored and located in urban markets; exactly in line with the Company's business strategy. The acquisitions of new development sites provide the Company with opportunities to participate in growth markets and generates higher returns on investment. Management remains optimistic that the Company will be able to continue the expansion of its portfolio through accretive acquisitions and development activities through the remainder of 2004. Overall, management is confident that the quality of the Company's real estate will continue to generate sustainable cash flows and produce growth and superior returns on investment over the long term.

Consolidated Balance Sheets

(thousands of dollars)	June 30 2004	December 31 2003
	(unaudited)	(audited)
ASSETS		
Real Estate Investments		
Shopping centres (note 3)	**$ 1,399,835**	$ 1,201,330
Land and shopping centres under development	**75,784**	62,845
Investment in Equity One, Inc.	**219,903**	211,412
Loans, mortgages and other real estate assets	**29,450**	21,429
	1,724,972	1,497,016
Other assets	**26,426**	18,822
Amounts receivable	**10,756**	7,134
Cash and cash equivalents	**580**	79
Future income tax assets	**14,022**	15,638
	$ 1,776,756	$ 1,538,689
LIABILITIES		
Mortgages and credit facilities	**$ 918,485**	$ 786,301
Accounts payable and accrued liabilities	**54,918**	54,410
Convertible debentures payable (note 4)	**17,318**	20,234
Future income tax liabilities	**13,125**	12,750
	1,003,846	873,695
SHAREHOLDERS' EQUITY (note 5)	**772,910**	664,994
	$ 1,776,756	$ 1,538,689

See accompanying notes to the consolidated financial statements

Consolidated Statements of Operations

(unaudited) (thousands of dollars, except per share amounts)	Three months ended **June 30** **2004**	 June 30 2003	Six months ended **June 30** **2004**	 June 30 2003
REVENUE				
Property rental revenue	**$ 52,613**	$ 37,002	**$ 101,067**	$ 72,950
Interest and other income	**1,459**	403	**2,490**	832
	54,072	37,405	**103,557**	73,782
EXPENSES				
Property operating costs	**20,701**	14,288	**39,608**	28,653
Interest expense (note 6)	**12,932**	10,790	**25,379**	21,220
Amortization	**8,411**	3,171	**16,405**	6,001
Corporate expenses	**2,697**	2,163	**5,183**	4,174
	44,741	30,412	**86,575**	60,048
Equity income from Equity One, Inc.	**4,428**	5,333	**9,124**	10,648
Income before the undernoted	**13,759**	12,326	**26,106**	24,382
Dilution gain on investment in Equity One, Inc.	**–**	3,129	**–**	14,934
Income before income and other taxes	**13,759**	15,455	**26,106**	39,316
Income and other taxes				
Current	**1,114**	1,215	**2,295**	2,681
Future	**4,153**	5,348	**7,427**	12,827
	5,267	6,563	**9,722**	15,508
Net income for the period	**$ 8,492**	$ 8,892	$ **16,384**	$ 23,808
Net earnings per common share (note 7)				
Basic	**$ 0.08**	$ 0.17	**$ 0.16**	$ 0.66
Diluted	**$ 0.08**	$ 0.17	**$ 0.16**	$ 0.61

See accompanying notes to the consolidated financial statements

Consolidated Statements of Deficit

(unaudited) (thousands of dollars)	Six months ended **June 30 2004**	June 30 2003
Deficit, beginning of period	**$ (94,115)**	$ (85,757)
Net income for the period	**16,384**	23,808
Interest and accretion on equity component of convertible debentures (net of tax of $4,604; 2003 – $5,142)	**(9,912)**	(10,916)
Dividends	**(24,502)**	(12,701)
Deficit, end of period	**$ (112,145)**	$ (85,566)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

(unaudited) (thousands of dollars)	Three months ended June 30 2004	Three months ended June 30 2003	Six months ended June 30 2004	Six months ended June 30 2003
OPERATING ACTIVITIES				
Net income for the period	**$ 8,492**	$ 8,892	**$ 16,384**	$ 23,808
Items not affecting cash				
Amortization	**8,087**	2,840	**15,772**	5,426
Amortization of financing fees	**324**	331	**633**	575
Loss on disposition of marketable securities	**–**	(109)	**–**	(71)
Loss on disposition of shopping centre	**–**	275	**–**	275
Non-cash compensation expense	**327**	–	**418**	–
Equity income from Equity One, Inc.	**(4,428)**	(5,333)	**(9,124)**	(10,648)
Dilution gain on investment in Equity One, Inc.	**–**	(3,129)	**–**	(14,934)
Future income taxes	**4,153**	5,348	**7,427**	12,827
Deferred leasing costs	**(4,313)**	(1,234)	**(4,842)**	(1,513)
Dividends received from Equity One, Inc.	**4,663**	4,667	**9,282**	9,631
Net change in non-cash operating items	**(4,979)**	7,537	**(15,457)**	4,103
Cash provided by operating activities	**12,326**	20,085	**20,493**	29,479
INVESTING ACTIVITIES				
Acquisition of shopping centres	**(53,126)**	(4,990)	**(114,823)**	(33,196)
Acquisition of land for development	**(19,584)**	(3,238)	**(23,944)**	(4,775)
Acquisition of intangible assets and liabilities - net	**(1,424)**	–	**(2,084)**	–
Proceeds on disposition of land and shopping centre	**–**	2,100	**-**	2,100
Expenditures on shopping centres	**(4,541)**	(2,222)	**(10,244)**	(5,124)
Expenditures on land and shopping centres under development	**(6,205)**	(18,641)	**(18,721)**	(30,521)
Investment in common shares of Equity One, Inc.	**(2,716)**	(487)	**(2,716)**	(21,876)
Repayments from (advances to) development partners	**533**	(2,642)	**(566)**	(4,015)
Investment in marketable securities	**(3,981)**	(1,720)	**(4,233)**	(1,776)
Disposition of marketable securities	**1,077**	686	**1,077**	760
Cash used in investing activities	**(89,967)**	(31,154)	**(176,254)**	(98,423)
FINANCING ACTIVITIES				
Proceeds of mortgage financings and credit facilities	**51,698**	24,020	**86,756**	111,434
Repayments of mortgages payable and credit facilities	**(4,467)**	(44,493)	**(12,533)**	(56,011)
Payment of financing fees	**(1,455)**	(674)	**(1,795)**	(1,216)
Issuance of common shares	**24,804**	78,396	**108,008**	78,396
Repayment of debentures	**–**	(40)	**–**	(40)
Payments on convertible debentures, net of interest expensed	**(277)**	(994)	**(2,916)**	(4,350)
Payment of dividends	**–**	(7,197)	**(21,355)**	(17,918)
Cash provided by financing activities	**70,303**	49,018	**156,165**	110,295
Effect of currency rate movement on cash balances	**26**	98	**97**	(96)
Increase (decrease) in cash and cash equivalents	**(7,312)**	38,047	**501**	41,255
Cash and cash equivalents, beginning of the period	**7,892**	3,573	**79**	365
Cash and cash equivalents, end of the period	**$ 580**	$ 41,620	**$ 580**	**$** 41,620
SUPPLEMENTARY INFORMATION				
Cash income taxes paid	**$ 1,019**	$ 402	**$ 1,421**	**$** 1,637
Cash interest paid (note 6)	**$ 14,220**	$ 12,660	**$ 30,208**	**$** 27,141

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Interim Financial Statements

June 30, 2004 (unaudited)

1 Summary of Accounting Policies

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these interim consolidated financial statements are consistent with those used in the Company's December 31, 2003 annual consolidated financial statements except for the changes in accounting policies described in note 2. These interim consolidated financial statements do not include all the information and disclosure required by Canadian GAAP for annual financial statements, and should be read in conjunction with the December 31, 2003 annual consolidated financial statements.

2 Changes in Accounting Policies

(a) Amortization of income properties

In accordance with recent amendments to Section 1100 of the CICA Handbook, effective January 1, 2004, the Company changed the amortization method for buildings from the 5% sinking fund basis to straight-line over the remaining useful life of the asset. The change in accounting policy was applied prospectively. The impact of the change in accounting policy was an increase of $4.4 million and $8.5 million in amortization expense for the three and six months ended June 30, 2004, respectively.

(b) Recognition of rental revenue

Effective January 1, 2004, the Company adopted amendments to Section 1100 of the CICA Handbook where base rental income from leases with contractual rent increases is recognized on a straight-line basis. The difference between the rental income recognized and the amounts contractually due under the lease agreements is recorded as deferred rent receivable and included in amounts receivable. The change in accounting policy was applied prospectively. Included in property rental revenue is the impact of the straight-lining of contractual rent increases of $0.7 million and $1.3 million for the three and six months ended June 30, 2004, respectively.

3 Shopping Centres

(thousands of dollars)	**June 30 2004**	December 31 2003
Land	**$ 287,385**	$ 237,057
Buildings and improvements	**1,136,678**	984,927
Deferred leasing costs	**33,194**	21,634
	1,457,257	1,243,618
Accumulated amortization	**(57,422)**	(42,288)
	$ 1,399,835	$ 1,201,330

During the first quarter of 2004, eleven properties totalling 0.8 million square feet were acquired for $74.3 million. The properties were financed with $46.8 million in cash, $9.8 million in assumed mortgages, $14.9 million in new mortgages and $2.8 million with a vendor take-back mortgage.

3 Shopping Centres
continued

During the second quarter of 2004, six properties totalling 0.7 million square feet were acquired for $92.4 million. These properties were financed with $53.1 million in cash, and $39.3 million in assumed mortgages.

The Company's interests in two leasehold properties (December 31, 2003 – two), have a net book value of $21.5 million (December 31, 2003 – $21.8 million) net of accumulated amortization of $2.2 million (December 31, 2003 – $1.8 million).

4 Convertible Debentures Payable

The following table summarizes the terms of the convertible debentures.

Interest Rate	Conversion Price	Maturity	Earliest Redemption Date
7.875%	$16.43 per common share	January 31, 2007	January 31, 2003
7.00%	$22.71 per common share	February 28, 2008	February 28, 2004
7.25%	$24.40 per common share	June 30, 2008	June 30, 2004

The following table summarizes the components of the Company's convertible debentures.

(thousands of dollars)	**June 30, 2004**			December 31, 2003		
Interest Rate	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
7.875%	**$ 97,522**	**$ 17,318**	**$ 84,467**	$ 97,522	$ 20,234	$ 81,088
7.00%	**99,999**	**–**	**102,600**	99,999	–	102,153
7.25%	**161,702**	**–**	**155,644**	161,702	–	154,316
	$359,223	**$ 17,318**	**$342,711**	$ 359,223	$ 20,234	$ 337,557

During the first quarter of 2004, 229,051 (2003 – 303,810) common shares were issued to pay interest to the holders of 7.0% convertible debentures.

During the second quarter of 2004, 394,990 (2003 - 438,090) common shares were issued to pay interest to the holders of 7.25% convertible debentures.

5 Shareholders' Equity

(thousands of dollars)	**June 30 2004**	December 31 2003
Share capital (a)	**$ 545,629**	$ 422,916
Equity component of convertible debentures (note 4)	**342,711**	337,557
Warrants (c)	**1,859**	6,591
Options and share units (d) (e)	**739**	298
Cumulative currency translation adjustment (f)	**(5,883)**	(8,253)
Deficit	**(112,145)**	(94,115)
	$ 772,910	$ 664,994

5 Shareholders' Equity
continued

(a) Share Capital

The following table sets forth the particulars of the issued and outstanding shares of the Company:

	Number of Common Shares	Stated Capital (thousands of dollars)
Issued and outstanding at December 31, 2003	35,109,754	$ 422,916
Public offering of common shares (b)	3,366,000	54,866
Payment of interest on convertible debentures	624,041	9,362
Exercise of warrants (c)	4,414,070	58,547
Exercise of options (d)	94,250	1,234
Issue costs, net of income taxes of $771,000	–	(1,296)
Issued and outstanding at June 30, 2004	**43,608,115**	**$ 545,629**

(b) Public Offering of Common Shares

On March 11, 2004, the Company issued 3,366,000 common shares at a price of $16.30 per share, for total gross proceeds of approximately $54.9 million.

(c) Warrants

During the first quarter of 2004, a total of 2,481,140 (2003 – nil) share purchase warrants were exercised at $11.80 per share resulting in proceeds of $29.3 million (2003 – $nil). The equity component of the warrants exercised, $2.0 million (2003 – $nil), was transferred to share capital. During the second quarter of 2004, 932,930 (2003 - 2,310,890) share purchase warrants were exercised at $11.80 per share and 1,000,000 advisory warrants were exercised at $13.53 per share (2003 - nil) resulting in proceeds of $11.0 million and $13.5 million, respectively (2003 - $27.3 million and $nil). The equity component of the warrants exercised, $2.7 million (2003 - $1.8 million), was transferred to share capital.

At June 30, 2004, there were 2,362,359 outstanding share purchase warrants (December 31, 2003 – 5,776,429) exercisable at $11.80 per share.

(d) Stock Options

The Company is authorized to grant up to 2,125,000 (2003 – 2,125,000) common shares to the employees, officers and directors of the Company and third party service providers including its property manager. Options granted by the Company generally expire ten years from the date of grant and vest over three years. The outstanding options have exercise prices ranging from $12.42 to $16.91.

5 Shareholders' Equity

continued

	Six months ended			
	June 30 2004		June 30 2003	
	Weighted Average		Weighted Average	
	Options	**Exercise Price**	Options	Exercise Price
Outstanding, beginning of period	**1,318,000**	**$ 13.44**	1,199,500	$ 12.92
Granted	**275,000**	**$ 16.91**	–	–
Exercised	**(94,250)**	**$ 13.06**	–	–
Cancelled	**(5,000)**	**$ 15.65**	(20,000)	$ 13.82
Outstanding, end of period	**1,493,750**	**$ 14.09**	1,179,500	$ 12.90
Options vested at end of period	**938,333**	**$ 13.54**	720,500	$ 13.05
Weighted average remaining life (years)	**7.5**		7.4	

In January 2002, the Company granted 774,500 options which had an approximate fair value of $0.5 million, of which $0.1 million would be the pro forma cost for the three and six months ended June 30, 2004 (2003 – $0.1 million and $0.1 million), in the determination of pro forma net income for the three and six months ended June 30, 2004 of $8.5 million and $16.3 million (2003 – $8.8 million and $23.7 million) and pro forma basic net earnings per share of $0.08 and $0.16 (2003 – $0.17 and $0.65) and proforma diluted net earnings per share of $0.08 and $0.16 respectively (2003 - $0.17 and $0.61).

(e) Share Unit Plans

On June 23, 2003, shareholders of the Company approved a Directors Deferred Share Unit Plan, a Restricted Share Unit Plan and a Chief Executive Officer Restricted Share Unit Plan. A total of 350,000 common shares have been reserved for issuance under these plans. As at June 30, 2004, 24,077 units have been issued under the Directors Deferred Share Unit Plan, and $0.1 million has been recorded as an expense in the three and six months ended June 30, 2004 (2003 – $nil). In March and May, 2004, a total of 80,000 units were issued under the CEO restricted share unit plan and 40,000 units were issued under the employee restricted share unit plan, and $0.2 million has been recorded as an expense in the three and six months ended June 30, 2004 (2003 - $nil).

(f) Cumulative Currency Translation Adjustment

The cumulative currency translation adjustment represents the cumulative unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States. The change for the period reflects the impact of U.S. currency movements on these net assets.

The rate of exchange in effect on June 30, 2004 was US$1.00 = Cdn$1.33 (December 31, 2003 – Cdn$1.30). The average rate of exchange for the three months ended June 30, 2004 was US$1.00 = Cdn$1.36 (2003 – Cdn$1.40). The average rate of exchange for the six months ended June 30, 2004 was US$1.00 = Cdn$1.34 (six months June 30, 2003 - Cdn$1.45).

6 Interest

(thousands of dollars)	Three months ended June 30, 2004	June 30, 2003
Mortgage and credit facility interest expense	**$ 12,470**	$ 9,541
Debenture interest expense	**–**	283
Convertible debenture interest expense	**462**	966
Interest expense	**12,932**	10,790
Payments on convertible debentures, net of interest expensed	**6,139**	6,856
Less: convertible debenture interest paid in common shares	**(5,862)**	(5,862)
Interest capitalized to land and shopping centres under development	**988**	836
Other	**23**	40
Cash interest paid	**$ 14,220**	$ 12,660

(thousands of dollars)	Six months ended June 30, 2004	June 30, 2003
Mortgage and credit facility interest expense	**$ 24,455**	$ 18,723
Debenture interest expense	**–**	565
Convertible debenture interest expense	**924**	1,932
Interest expense	**25,379**	21,220
Payments on convertible debentures, net of interest expensed	**12,278**	13,712
Less: convertible debenture interest paid in common shares	**(9,362)**	(9,362)
Interest capitalized to land and shopping centres under development	**1,899**	1,492
Other	**14**	79
Cash interest paid	**$ 30,208**	$ 27,141

7 Per Share Calculations

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

(thousands of dollars, except per share)	Three months ended June 30, 2004	Three months ended June 30, 2003
Basic income		
Net income	**$ 8,492**	$ 8,892
Interest and accretion on equity component of convertible debentures, net of tax	**(4,958)**	(5,460)
Basic net income available to common shareholders	**$ 3,534**	$ 3,432
Diluted income		
Net income for the period	**$ 8,492**	$ 8,892
Interest expense recorded on liability portion of convertible debentures, net of tax	**289**	604
Diluted net income available to common shareholders	**$ 8,781**	$ 9,496
Denominator		
Weighted average shares outstanding for basic per share amounts	**42,283,087**	20,029,131
Conversion of outstanding convertible debentures	**16,966,040**	20,800,553
Outstanding share purchase warrants	**876,977**	882,850
Outstanding options	**206,336**	47,968
Denominator for diluted net income available to common shareholders	**60,332,440**	41,760,502
Basic earnings per common share	**$ 0.08**	$ 0.17
Diluted earnings per common share	**$ 0.08**	$ 0.17

7 Per Share Calculations continued

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

(thousands of dollars, except per share)	Six months ended June 30, 2004	Six months ended June 30, 2003
Basic income		
Net income	**$ 16,384**	$ 23,808
Interest and accretion on equity component of convertible debentures, net of tax	**(9,912)**	(10,916)
Basic net income available to common shareholders	**$ 6,472**	$ 12,892
Diluted income		
Net income for the period	**$ 16,384**	$ 23,808
Interest expense recorded on liability portion of convertible debentures, net of tax	**578**	1,208
Diluted net income available to common shareholders	**$ 16,962**	$ 25,016
Denominator		
Weighted average shares outstanding for basic per share amounts	**39,881,548**	19,685,725
Conversion of outstanding convertible debentures	**16,966,040**	20,800,553
Outstanding share purchase warrants	**1,052,672**	539,443
Outstanding options	**221,469**	13,480
Denominator for diluted net income available to common shareholders	**58,121,729**	41,039,201
Basic earnings per common share	**$ 0.16**	$ 0.66
Diluted earnings per common share	**$ 0.16**	$ 0.61

The following securities were not included in the diluted per share calculation for the three and six months ended June 30, 2004 and 2003 as the effect would have been anti-dilutive.

	Exercise Price	Number of shares if converted or exercised June 30 2004	Number of shares if converted or exercised June 30 2003
Advisory warrants	$ 13.53	**–**	1,000,000
Common share options	$ 13.82	**–**	405,000
Common share options	$ 16.91	**275,000**	–

8 Segmented Information

The Company and its subsidiaries operate in the shopping centre segment of the real estate industry in both Canada and the United States.

Operating income by geographic segment for the three months ended June 30, 2004 is summarized as follows:

(thousands of dollars)	**Canada**	**U.S.**	**Total**
Property rental revenue	**$ 52,613**	**$ –**	**$ 52,613**
Property operating costs	**20,701**	**–**	**20,701**
Net operating income	**31,912**	**–**	**31,912**
Equity income from Equity One, Inc.	**–**	**4,428**	**4,428**
Interest and other income	**1,459**	**–**	**1,459**
Interest expense	**11,676**	**1,256**	**12,932**
Corporate expenses	**2,411**	**286**	**2,697**
Operating income before amortization	**19,284**	**2,886**	**22,170**
Amortization	**8,374**	**37**	**8,411**
Operating income	**$ 10,910**	**$ 2,849**	**$ 13,759**

Operating income by geographic segment for the three months ended June 30, 2003 is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	$ 37,002	$ –	$ 37,002
Property operating costs	14,288	–	14,288
Net operating income	22,714	–	22,714
Equity income from Equity One, Inc.	–	5,333	5,333
Interest and other income	335	68	403
Interest expense	9,655	1,135	10,790
Corporate expenses	2,085	78	2,163
Operating income before amortization	11,309	4,188	15,497
Amortization	3,148	23	3,171
Operating income	$ 8,161	$ 4,165	$ 12,326

8 Segmented Information continued

Operating income by geographic segment for the six months ended June 30, 2004 is summarized as follows:

(thousands of dollars)	**Canada**	**U.S.**	**Total**
Property rental revenue	**$ 101,067**	**$ –**	**$ 101,067**
Property operating costs	**39,608**	**–**	**39,608**
Net operating income	**61,459**	**–**	**61,459**
Equity income from Equity One, Inc.	**–**	**9,124**	**9,124**
Interest and other income	**2,490**	**–**	**2,490**
Interest expense	**22,949**	**2,430**	**25,379**
Corporate expenses	**4,834**	**349**	**5,183**
Operating income before amortization	**36,166**	**6,345**	**42,511**
Amortization	**16,338**	**67**	**16,405**
Operating income	**$ 19,828**	**$ 6,278**	**$ 26,106**

Operating income by geographic segment for the six months ended June 30, 2003 is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	$ 72,950	$ –	$ 72,950
Property operating costs	28,653	–	28,653
Net operating income	44,297	–	44,297
Equity income from Equity One, Inc.	–	10,648	10,648
Interest and other income	786	46	832
Interest expense	19,055	2,165	21,220
Corporate expenses	3,886	288	4,174
Operating income before amortization	22,142	8,241	30,383
Amortization	5,955	46	6,001
Operating income	$ 16,187	$ 8,195	$ 24,382

9 Contingencies and Commitments

(a) The Company is contingently liable, jointly and severally, for approximately $22.9 million (December 31, 2003 – $19.1 million) to various lenders in connection with loans advanced to its joint-venture partners secured by the partners' interest in the joint ventures.

(b) The Company is contingently liable for letters of credit in the amount of $7.8 million (December 31, 2003 – $11.6 million) issued in the ordinary course of business.

(c) The costs to complete projects currently under development are estimated at $43 million of which $26 million has been committed under construction contracts.

10 Subsequent Events

(a) In July 2004, the Company acquired a property in Vancouver, British Columbia, for $13.2 million, totalling 38,000 square feet. The purchase price for this transaction was satisfied by $4.1 million in cash and $9.1 million in long-term debt at a fixed rate of 6.23%.

(b) On July 22, 2004, the Company announced that it will redeem all of its outstanding 7.875% convertible unsecured subordinated debentures ("7.875% Debentures") on August 30, 2004 for cash, together with accrued and unpaid interest (the "Redemption"). As of June 30, 2004, $97.5 million principal amount of 7.875% Debentures were outstanding.

Canadian subsidiaries of Gazit-Globe (1982) Ltd. ("Gazit") and Alony-Hetz Properties & Investments Ltd., ("Alony-Hetz") which hold $39.7 million and $11.1 million principal amount of $7.875% Debentures as of July 22, 2004 respectively, have each advised the Company that they will convert their 7.875% Debentures into common shares at the $16.43 conversion price prior to the redemption date.

(c) Gazit and Alony-Hetz, through Canadian subsidiaries, have agreed to subscribe for an aggregate of 2,000,000 common shares on a private placement basis at a price of $16.00 per share, subject to regulatory approval. The private placement proceeds of $32 million along with the Company's credit facilities will be used to fund the Redemption.

(d) In August 2004, the Company acquired a property in Toronto, Ontario, for $38.3 million, totalling 90,000 square feet. The purchase price for this transaction was satisfied by $17.9 million in cash and $20.4 million in assumed long-term debt at a fixed rate of 8.29%.

(e) In August 2004, the Company disposed of a 50,000 square foot shopping centre in Leduc, Alberta for cash proceeds of $7.0 million, net of commission and closing costs, and will realize a gain of $0.3 million.

11 Comparative Amounts

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

Shareholder Information

HEAD OFFICE
BCE Place, Canada Trust Tower
161 Bay Street, Suite 2820, P.O. Box 219
Toronto, Ontario, M5J 2S1
Tel: 416.504.4114
Fax: 416.941.1655
www.firstcapitalrealty.ca

MONTREAL OFFICE
2620 de Salaberry, Suite 201
Montreal, Quebec, H3M 1L3
Tel: 514.332.0031
Fax: 514.332.5135

CALGARY OFFICE
McKenzie Town Centre
60R High Street S.E.
Calgary, Alberta, T2Z 3T8
Tel: 403.263.8444
Fax: 403.263.8441

U.S. OFFICE
1660 N.E. Miami Gardens Drive, Suite One
North Miami Beach, FL 33179
Tel: 305.944.7988
Fax: 305.944.7986

TORONTO STOCK EXCHANGE LISTINGS

Common Shares:	FCR
7.875% convertible debentures:	FCR.DB.B
7% convertible debentures:	FCR.DB.C
7.25% convertible debentures:	FCR.DB.D
Warrants:	FCR.WT

TRANSFER AGENT
Computershare Trust Company of Canada
100 University Avenue, 11th Floor
Toronto, Ontario, M5J 2Y1
Tel: 416.981.9633
(Toll Free) 1.800.663.9097

LEGAL COUNSEL
Torys LLP
Toronto, Ontario

Davies Ward Phillips & Vineberg LLP
Montreal, Quebec

AUDITORS
Deloitte & Touche LLP
Toronto, Ontario

First Capital Realty Inc.
BCE Place, Canada Trust Tower
161 Bay Street, Suite 2820
Toronto, ON M5J 2S1

tel: 416.504.4114
fax: 416.941.1655

www.firstcapitalrealty.ca