



3



Shopping For Everyday Life

First Capital Realty Inc.
Management's Discussion & Analysis
Third Quarter Report 2004
Restated March 10, 2005 - See Page 1

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 First Capital Realty's ("the Company") 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 November 5, 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 third quarter of this year and the prior year and summarizes our results of operations and financial condition for the nine month period ended September 30, 2004. *It should be read in conjunction with the Company's 2004 Third Quarter Unaudited Consolidated Interim Financial Statements and Notes Restated March 10, 2005 and the Company's 2003 MD&A contained in the Company's 2003 Annual Report.* Additional information, including all of the Company's 2004 Quarterly Reports, 2003 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.

RESTATED EARNINGS PER SHARE AND RECLASSIFIED AMOUNTS

The Company has amended and filed on Sedar its consolidated interim financial statements for the Third Quarter 2004 as follows:

(1) *The basic earnings per share amounts for the three and nine-month periods ended September 30, 2004 have been restated to correctly include in these calculations the contributed surplus of \$2.1 million recorded in Shareholders' Equity in the three months ended September 30, 2004. As a result, basic earnings per share have increased in these periods by \$0.04 and \$0.05 per share, respectively. The diluted earnings per share amounts for the three and nine-month periods ended September 30, 2004 were also restated and increased by \$0.02 and \$0.04 per share, respectively.*

In addition, the Company restated its diluted earnings per share amounts for the quarters and year-to-date periods ended during 2003 to reflect the exclusion of certain securities from the calculation as they were anti-dilutive.

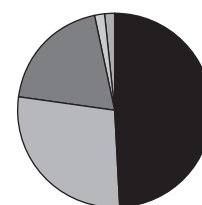
As a result of the above, the cumulative impact on the diluted earnings per share amount for the period from January 1, 2003 to September 30, 2004 was a net decrease of \$0.01.

(2) *Effective January 1, 2003, a reclassification totalling \$2.2 million was recorded within Shareholders' Equity, between the Equity Component of Convertible Debentures and the Deficit, relating to issue costs which were not previously amortized.*

There is no impact to Net Income, Shareholders' Equity, Funds from Operations or Funds from Operations per diluted share as a result of the restated earnings per share and reclassified amounts.

Information in this report that is italicized indicates it has changed from the previously filed report.

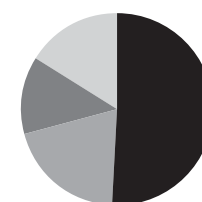
Annual minimum rent by province



Ontario	50.2%
Quebec	27.2%
Alberta	19.0%
B.C.	2.2%
Other	1.4%

All Tenants

Annual minimum rent by tenant type



Supermarkets and drug stores	51%
Other retailers and services	20%
Banks and government	13%
Discount retailers	16%

Top 30 Tenants

Report to Shareholders continued

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 September 30, 2004 the Company owns interests in 103 properties, including four under development with approximately 12.7 million square feet of gross leasable area. Ninety-five of these properties are anchored by a supermarket and/or drugstore.

The Company also owns 12.7 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 September 30, 2004 comprised 182 properties totalling 19.9 million square feet. Including properties held through its investment in Equity One, at September 30, 2004 the Company had interests in 285 properties totalling approximately 32.6 million square feet of gross leasable area.

During the third quarter of 2004, the Company's activities were focused on achieving long term objectives of growing the business and funds from operations. Specifically, the Company invested over \$79 million in income producing properties and development projects; continued to build the portfolio in the Vancouver area with the second acquisition in the province of British Columbia; continued to improve the performance of the existing properties; and accomplished this while further strengthening the balance sheet.

During the third quarter of 2004, the Company acquired three income producing shopping centres, one in Ontario, one in Alberta and one in British Columbia, in total comprising approximately 162,000 square feet of gross leasable area. The aggregate acquisition amount of \$57.9 million, including closing costs, was funded through the assumption of \$20.4 million in mortgage debt, \$13.6 million in new mortgage financing with the balance paid in cash.

Year-to-date through September 30, 2004, the Company has acquired a total of 20 income producing retail properties aggregating approximately 1.7 million square feet of gross leasable area. The amount invested totals \$227.0 million, including closing costs, and was funded through \$69.5 million in assumed mortgages, \$28.5 million in new mortgage financing, \$2.8 million with a vendor take-back mortgage with the balance paid in cash.

The Company's properties are summarized as follows:

September 30	2004			2003		
	% Occupied	Number of Properties	Gross Leasable Area (000s sq. ft.)	% Occupied	Number of Properties	Gross Leasable Area (000s sq. ft.)
Ontario	94.5%	43	6,006	93.9%	33	4,922
Quebec	93.3%	40	3,988	92.7%	28	2,998
Western Canada	92.8%	18	2,606	90.5%	16	1,903
Maritimes	86.5%	2	92	88.1%	2	92
Total	93.7%	103	12,692	92.8%	79	9,915

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

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.

Report to Shareholders continued

Year-to-date, the Company has acquired six land sites for new retail development and six parcels of land at or adjacent to existing centres comprising 63 acres with approximately 700,000 developable square feet for a total investment of \$26 million.

Construction at the Company's development sites continued during the third quarter, and are on track to contribute to the Company's earnings in the coming years. At the Company's Royal Oak development in Calgary, Alberta, a new 36,000 square foot London Drugs store opened in the quarter, and an additional 34,000 square feet is under construction, with 95% of the space leased and scheduled for completion by Q2, 2005. At Strandherd Crossing in Ottawa, Ontario 90,000 square feet of the planned 120,000 square foot shopping centre is currently under construction, with 71% of the space leased and scheduled for completion in Q2, 2005. Construction of a 15,300 square foot drugstore near the Company's existing Bridgeport Plaza in Waterloo, Ontario, is nearing completion, and the tenant will open in December of this year. At 3434 Lawrence in Toronto, which is located across the street from Cedarbrae Mall, construction of a 37,000 square feet retail property is under way, with 86% of the space leased and scheduled for completion in Q2, 2005.

Development of 91,000 square feet was completed during the third quarter of which 72,000 square feet was leased at an average rate of \$18.22 per square foot. Year-to-date through September 30, the Company has brought on-line 383,000 square feet of which 356,000 square feet was leased at an average rate of \$17.33 per square foot. These successfully completed development projects highlight the future value of investments in development initiatives that are currently not generating income, but are expected to contribute significantly to the growth of the Company.

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

Property Name	Number of		Developable
	Sites/Properties	Acreage	Sq. Ft.
Land parcels adjacent to/part of existing properties	30	62	752,750
Land sites held for future development	5	80	710,000
Properties under development	4	42	249,300
Additional developable square footage in existing properties	4	-	128,000
			1,840,050

In addition to the acquisitions of income producing properties and development assets, the Company invested \$21 million during the third quarter in its active development projects as well as in certain improvements to its existing shopping centre portfolio. Year-to-date through September 30, investments in these activities total \$55 million.

LEASING AND OCCUPANCY

Leasing activity in the third quarter resulted in net new leasing of 62,000 square feet, including development coming on line, and renewal leasing of 69,000 square feet. For the nine months ended September 30, 2004 net new leasing totalled 397,000 square feet including development coming on line, and renewal leasing of 240,000 square feet. The average rate per occupied square foot at September 30, 2004 increased to \$13.08 from \$12.66 at January 1, 2004 and \$12.37 at September 30, 2003.

The portfolio occupancy at September 30, 2004 increased to 93.7% from 93.1% at December 31, 2003 and 92.8% at September 30, 2003.

Properties acquired during the nine month period ended September 30, 2004 have an average lease rate per occupied square foot of \$14.02 and occupancy of 92.7%.

Report to Shareholders continued

FINANCIAL REVIEW

(unaudited) (\$'000s except share and other data)	Three months ended		Nine months ended	
	September 30		September 30	
	2004	2003	2004	2003
Property rental				
revenue	54,412	38,145	155,479	110,095
Net operating income	35,257	24,112	96,716	68,409
Net income	10,739	10,824	27,123	34,632
<i>Net income/share⁽¹⁾</i>	0.17	0.19	0.35	0.82
<i>Net income/diluted share⁽¹⁾</i>	0.15	0.18	0.34	0.76
Funds from operations	22,921	16,085	63,080	42,399
Funds from operations/ diluted share	0.38	0.34	1.09	1.03
Weighted average shares outstanding	47,018,537	27,338,724	42,277,927	22,264,758
<i>Weighted average diluted shares - Earnings per share⁽¹⁾</i>	50,970,595	29,101,361	43,413,530	32,965,180
Weighted average diluted shares - Funds from operations per share	62,001,029	49,901,914	59,476,851	43,995,614
Dividends paid/share	0.29	0.29	0.87	0.85
Total assets			1,833,562	1,432,875
Total mortgages and credit facilities			975,538	704,651
Shareholders' equity			798,735	633,048
OTHER DATA				
Number of properties			103	79
Gross leasable area			12,692,000	9,915,000
Occupancy %			93.7%	92.8%

⁽¹⁾ Restated See Note 1 of the Third Quarter 2004 Interim Financial Statements restated on March 10, 2005.

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.

Report to Shareholders continued

The Company's funds from operations are calculated below:

(unaudited) (thousands of dollars)	Three months ended		Nine months ended	
	September 30		September 30	
	2004	2003	2004	2003
Net income for the period	\$ 10,739	\$ 10,824	\$ 27,123	\$ 34,632
Add (deduct):				
Amortization	9,140	2,761	24,912	8,187
Gain/loss on disposition of real estate and investments	(1,163)	(3)	(1,163)	201
Loss on settlement of convertible debentures	215	-	215	-
Non-cash compensation expense	271	135	689	135
Equity income from Equity One, Inc	(4,568)	(5,356)	(13,692)	(16,004)
Dividend income from Equity One, Inc	4,645	4,710	13,927	14,341
Dilution gain on investment in Equity One, Inc	(1,988)	(2,977)	(1,988)	(17,911)
Future income taxes	5,630	5,991	13,057	18,818
Funds from operations	\$ 22,921	\$ 16,085	\$ 63,080	\$ 42,399

Funds from operations for the three months ended September 30, 2004 totalled \$22.9 million or \$0.38 per diluted common share, compared to \$16.1 million or \$0.34 in the third quarter of 2003. FFO for the first nine months of 2004 totalled \$63.1 million or \$1.09 per diluted share, compared to \$42.4 million or \$1.03 per diluted share for the comparable period in 2003. The increases in FFO in the three and nine month periods respectively are primarily due to the Company's property acquisitions and development projects coming on-line.

Net Operating Income

Net operating income for the three months ended September 30, 2004 totalled \$35.3 million compared to \$24.1 million in the third quarter of 2003, an increase of \$11.2 million or 46%. Current year acquisitions contributed \$4.1 million to the increase; the incremental effect of 2003 acquisitions contributed \$4.0 million to the increase; completed development projects contributed \$1.9 million of the increase; the amortization of market rent adjustments contributed \$0.1 million of the increase; and same property income grew by 1.7% and contributed \$0.3 million, before straight-line rent and lease termination income.

In the nine month period ended September 30, 2004, net operating income totalled \$96.7 million, compared to \$68.4 million for the same prior year period, an increase of \$28.3 million or 41%.

Current year acquisitions contributed \$7.2 million to the increase; the incremental effect of 2003 acquisitions contributed \$13.8 million to the increase; completed development projects contributed \$5.3 million of the increase; the amortization of market rent adjustments contributed \$0.2 million of the increase; and same property NOI grew by 2.1% and contributed \$1.1 million.

In the normal course of operations, the Company receives payments from tenants as compensation for the cancellation of leases. Typically, annual lease termination income ranges from \$0.3 million to

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

Report to Shareholders continued

\$0.5 million. In the three months ended September 30, 2004, the Company received \$0.8 million in termination fees, including \$0.6 million from a single tenant, compared to \$0.1 million in the third quarter of 2003. In the nine month period ended September 30, 2004, the Company has received \$0.9 million in lease termination fees compared to \$0.5 million in the prior year comparative period, an increase of \$0.4 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 \$0.8 million and \$2.0 million in the three and nine month periods ended September 30, 2004 and an increase to diluted FFO per share of approximately one cent and three cents, respectively.

Interest and other income

Interest and other income for the three months ended September 30, 2004 totalled \$2.1 million, compared to \$1.3 million in the third quarter of 2003, an increase of \$0.8 million. In the nine month period ended September 30, 2004, interest and other income totalled \$4.6 million, compared to \$2.3 million for the prior year same period, an increase of \$2.3 million. These increases were primarily due to the receipt of income from certain high yield cash flow participation loans, in which the Company had a non-recourse interest. Income includes both regular interest and cash flow payments on realization by the borrower of the underlying real estate assets. The interest income and cash flow payments from high yield cash flow participation loans are not expected to be a significant contributor to the Company's results going forward.

Interest Expense

Mortgages and credit facilities payable have increased as a result of the Company's acquisition and development activities and total \$976 million at September 30, 2004 compared with \$705 million at September 30, 2003. Interest expense totalled \$13.8 million and \$39.2 million, in the three and nine month periods ended September 30, 2004, respectively, compared to \$10.5 million and \$31.7 million in the same prior year periods, respectively.

The increase in interest expense from higher balances 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 September 30, 2004 from 6.9% at September 30, 2003.

Corporate Expenses

Corporate expenses for the three months ended September 30, 2004 totalled \$3.5 million, compared to \$2.1 million in the third quarter of 2003, an increase of \$1.4 million. In the nine month period ended September 30, 2004, corporate expenses totalled \$8.7 million, compared to \$6.3 million for the prior year same period, an increase of \$2.4 million. Corporate expenses have increased in aggregate amount as the Company has grown over the past two years. However, as a percentage of gross rental income, corporate expenses have declined from 5.8% for the year ended December 31, 2003 to 5.6% for the nine months ended September 30, 2004. In the three and nine month periods ending

Report to Shareholders continued

September, 2004 there was significant increase in pre-acquisition costs incurred in the investigation of properties, which were ultimately not acquired by the Company. These pre-acquisition costs typically include environmental studies, planning, legal and other professional fees and totalled \$0.7 million in the quarter and \$0.9 million year-to-date.

During the year the Company opened an office in Calgary and expanded its Montreal office in response to its growth and national scope. Relocation costs for a key senior executive were also recorded in the third quarter. It is anticipated that these investments in our infrastructure and additional staff will result in a strategic advantage for the Company in managing growth going forward and in particular the increasing development and redevelopment activities.

Amortization Expense

Effective January 1, 2004, the Company adopted on a prospective basis 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 \$5.4 million and \$13.9 million in amortization expense in the three and nine month periods ended September 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 September 30, 2004, compared to US\$3.4 million, or US\$0.28 per share, in the three month period ended September 30, 2003. The Canadian dollar equivalent of this dividend is \$4.6 million in the third quarter of 2004 and \$4.7 million in the comparable period of 2003. The dividend increase has been offset by a decline in the average exchange rate from \$1.38 to \$1.31 for the three month period ended September 30, 2004. For the first nine months of 2004, the Canadian dollar equivalent of the Equity One dividend declined to \$13.9 million from \$14.3 million in the prior year comparative periods as the average exchange rate declined from \$1.43 in 2003 to \$1.33 in 2004 for the nine month period ended September 30.

In the three and nine months ended September 30, 2004 a \$2.0 million dilution gain was recognized on the investment in Equity One. In 2003, a \$3.0 million and \$17.9 million dilution gain was recognized in the three and nine months periods ended September 30, respectively. These gains were non-cash and contributed \$1.2 million in 2004 and \$1.9 million and \$11.2 million in the three and nine month periods ending September 30, 2003 to after tax income.

Gain/Loss on Disposition of Real Estate and Investments

Periodically, the Company will dispose of certain assets which do not meet the long-term investment strategy of the Company. In the three and nine months ended September 30, 2004, the Company sold its Leduc Towne Square property of 50,000 square feet in Leduc, Alberta and a land parcel held in a joint venture for a total gain on sale of \$1.2 million. In the prior year nine month comparative period, the Company recognized a \$0.3 million loss on the sale of its Highfield Park shopping centre in Nova Scotia.

Report to Shareholders continued

Net Income

Net income for the three and nine months ended September 30, 2004 amounted to \$10.7 million or *17 cents per basic share and 15 cents per diluted share* and \$27.1 million, or *35 cents per basic share and 34 cents per diluted share*, respectively. See Note 1 of the Third Quarter 2004 Interim Financial Statements restated on March 10, 2005.

Financing Activities

The Company has continued to raise common equity to support its growth plans while maintaining financial discipline.

The Company redeemed its 7.875% convertible debentures on August 30, 2004 for cash, together with accrued and unpaid interest. In total \$35.1 million principal amount of 7.875% Debentures were redeemed in cash. Prior to the redemption date, holders of \$62.4 million principal amount of 7.875% convertible debentures converted their debentures into 3,797,212 common shares at a conversion price of \$16.43 in accordance with the terms and conditions of the trust indenture including Canadian subsidiaries of Gazit-Globe Ltd. ("Gazit") and Alony-Hetz Properties & Investments Ltd., (Alony-Hetz), which converted \$42.1 million and \$11.1 million principal amount, respectively.

The Company also completed a private placement of two million common shares at \$16.00 per share for total net proceeds of approximately \$32 million to Canadian subsidiaries of Gazit and Alony Hetz. In addition, 1.4 million warrants have been exercised since June 30, 2004 at a price of \$11.80, for total proceeds of approximately \$16.9 million. The \$48.9 million in proceeds from these two equity transactions were used to fund the redemption, with the balance to be used for general corporate purposes.

In the aggregate the Company has issued 16.1 million common shares for the nine month period ended September 30, 2004 through an equity offering on a bought deal basis, a private placement, the conversion of a portion of the 7.875% convertible debentures, the exercise of warrants and options and the payment of interest on certain of its convertible debentures in shares.

These financing activities have provided funds to the Company totalling \$117 million and \$235 million in the three and nine month periods to September 30, 2004, respectively, and have allowed the Company to grow its portfolio while reducing leverage and increasing the liquidity of its shares.

OUTLOOK

First Capital Realty continued to make progress in the third quarter toward achieving its 2004 goals:

- increasing the size of the Company's income-producing portfolio while maintaining asset quality;
- increasing the cash flow from operations through increased rental rates, portfolio occupancy and value-added initiatives;
- growing the business with a debt ratio at approximately the 2003 year-end ratio; and
- increasing the Company's market capitalization and public float.

First Capital Realty has a focused and clear strategy for managing and growing the business, and management believes it is well positioned to continue to deliver increased value to investors over the long term. Proactive management of its assets, aggressive leasing efforts and successful development

Report to Shareholders continued

initiatives should result in increased occupancy and growing net operating income in the Company's existing portfolio. The Company's superior locations and well maintained properties should continue to attract and retain tenants that provide customers with daily necessities. The income properties acquired during the first nine months of 2004 are substantially all supermarket anchored and located in urban markets in line with the Company's business strategy.

However, the acquisition environment is becoming even more competitive and it is increasingly difficult to find properties that immediately meet the Company's investment and return criteria. Furthermore, the spreads between cap rates and the Company's cost of capital are becoming smaller than those it has been able to obtain during the prior four years. Therefore, with the current environment in the real estate market, management believes it is increasingly more important to pursue acquisitions where there are opportunities for leasing, redevelopment and/or other value creation activities. Nevertheless, the Company will continue to acquire properties that are well leased, well located and of high quality where they add strategic value and/or operating efficiencies. The acquisition of new development sites will continue to provide the Company with opportunities to participate in growth markets and generate higher returns on investment. The Company typically limits investment in development assets to approximately 5% of total assets.

On acquisitions of both income producing and development properties, the Company will continue to focus on maintaining the sustainability and growth potential of its rental income to ensure that refinancing risk is minimized. This is particularly important in an environment with decreasing capitalization rates resulting from increasing real estate prices.

Overall, management is confident that the quality of the Company's real estate will continue to generate sustainable and growing cash flows and produce superior returns on investment. Management continues to believe that real estate is a real business, where people, good strategy and execution make a real difference.

First Capital Realty's 2004 diluted FFO per share guidance is being forecast at \$1.45 to \$1.47 taking into consideration a projected share price of \$17.00, the U.S. exchange rate at \$1.20 Canadian, and 2004 acquisitions of income producing properties of \$250 million.

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