



FIRST CAPITAL REALTY INC.

FIRST QUARTER REPORT 2005



Shopping For Everyday Life



Shopping For Everyday Life

First Capital Realty is Canada's leading owner, developer and operator of supermarket anchored neighbourhood and community shopping centres located predominantly in growing metropolitan areas. First Capital is also the second largest shareholder of Equity One (NYSE: EQY), one of the largest shopping centre REITs in the southern United States.

FINANCIAL HIGHLIGHTS

('000s except per share amounts)	Three months ended March 31	
	2005	2004
Number of properties	110	91
Real estate investments	\$ 1,942,079	\$ 1,594,721
Shareholders' equity	\$ 741,998	\$ 429,174
Revenues	\$ 61,061	\$ 49,485
Net operating income	\$ 36,784	\$ 29,547
Funds from operations (FFO)	\$ 19,296	\$ 13,132
FFO per diluted share ⁽¹⁾	\$ 0.35	\$ 0.34
Weighted average diluted common shares	54,730,436	39,098,047
Debt to total market capitalization	48.6%	61.9%
Debt to gross real estate assets	56.9%	71.8%
Common shares outstanding	63,545,523	41,257,945

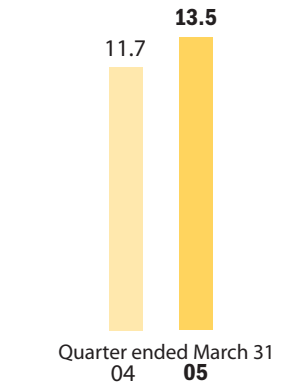
⁽¹⁾ Including non-recurring income of \$0.01 per diluted share

First Quarter HIGHLIGHTS

- Property rental revenue increased 24% to \$60.3 million from \$48.5 million last year.
- Same property NOI increased 1.9%.
- Invested \$96 million in acquisitions, development activities and improvements.
- Added 526,000 square feet of gross leasable area from acquisition of six income producing properties totalling 403,000 square feet and development coming on-line totalling 123,000 square feet.
- Net new leasing including development coming on-line of 57,000 square feet.
- Renewal leasing of 191,000 square feet generated annual minimum rent of 3.8% greater than the expiring rent.
- Average rent per occupied square foot increased to \$13.23 at March 31, 2005 (prior to acquisitions) from \$12.60 at March 31, 2004.
- Portfolio occupancy of 93.9% at March 31, 2005 increased from 93.3% at March 31, 2004.

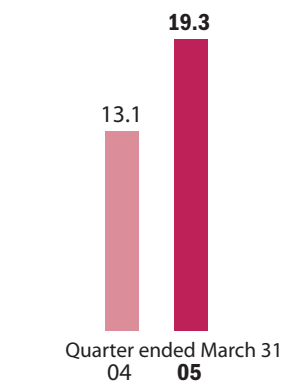
GROSS LEASABLE AREA

(millions of square feet)



FUNDS FROM OPERATIONS

(\$ millions)



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 and results of operations. The forward-looking statements use the words "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 May 12, 2005.

Introduction

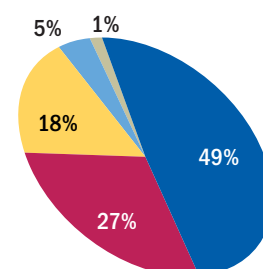
The Management's Discussion and Analysis ("MD&A") of financial condition is intended to provide readers with an assessment of our performance during the first quarter of this year and the prior year and summarizes our results of operations and financial condition for the three month period ended March 31, 2005. *It should be read in conjunction with the Company's 2005 First Quarter Unaudited Consolidated Interim Financial Statements and Notes and the Company's 2004 Financial Statements and MD&A contained in the Company's 2004 Annual Report.* Additional information, including the Company's 2004 Quarterly Reports, 2004 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 Review

First Capital Realty Inc. (TSX:FCR) is Canada's leading owner, developer and operator of supermarket anchored neighbourhood and community shopping centres located predominantly in growing metropolitan areas. As of March 31, 2005, the Company owns interests in 110 properties, including three under development with approximately 13.5 million square feet of gross leasable area. Over 90% of our properties are anchored by a supermarket and/or drug store, the two most popular destinations for everyday shopping.

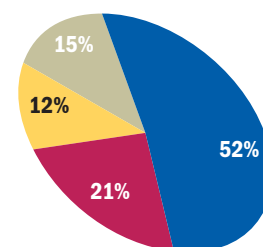
The Company also owns 12.9 million shares (approximately 17.6%) of Equity One, Inc., a neighbourhood and community shopping centre REIT operating primarily in the southern United States. The assets of Equity One are similar to those of the Company and at March 31, 2005 comprised 189 properties totalling 19.8 million square feet. Including properties held through its investment in Equity One, at March 31, 2005 the Company had interests in 299 properties totalling approximately 33.3 million square feet of gross leasable area.

ANNUAL MINIMUM RENT BY PROVINCE



Ontario	49%
Quebec	27%
Alberta	18%
British Columbia	5%
Other	1%

TOP 30 TENANTS ANNUAL MINIMUM RENT BY TYPE



Supermarket and drug store	52%
Other retailers and services	21%
Banks and government	12%
Discount retailers	15%

REPORT TO SHAREHOLDERS *continued*

The Company's properties are summarized as follows:

March 31	2005			2004		
	Gross Leasable			Gross Leasable		
	Number of Properties	Area (000s sq. ft.)	Percent Occupied	Number of Properties	Area (000s sq. ft.)	Percent Occupied
Ontario	45	6,312	94.1%	37	5,600	94.0%
Quebec	41	4,149	94.4%	38	3,803	93.1%
Alberta	15	2,274	92.1%	14	2,111	92.0%
British Columbia	5	592	96.9%	—	—	—
Other	4	184	88.9%	4	184	89.4%
Total	110	13,511	93.9%	93	11,698	93.3%

The Company's total investments in its acquisition, development and portfolio improvement activities during the first quarter of 2005 is summarized as follows:

(\$ millions)

Acquisition of income-producing properties	\$ 73
Acquisition of additional interests and land parcels adjacent to existing properties	3
Active development and portfolio improvement	20
	\$ 96

During the first quarter of 2005, the Company acquired six income producing shopping centres, two in Ontario, one in Alberta, two in British Columbia and one in Quebec, in total comprising approximately 403,000 square feet of gross leasable area for a total investment of \$72.7 million. This amount, including closing costs, was funded through the assumption of \$25.3 million in mortgage debt, \$10.3 million in new mortgage financing with the balance paid in cash.

During the quarter, the Company acquired 3 parcels of land at or adjacent to existing centres comprising 4 acres for a total investment of \$2.9 million.

In the first quarter of 2005, 123,000 square feet of newly developed retail space came on-line in the following shopping centres:

Property Name	City	Province	Gross	
			Leasable Area (Square Feet)	Occupancy
Royal Oak	Calgary	AB	12,000	100%
Strandherd Crossing	Ottawa	ON	26,000	100%
3434 Lawrence	Toronto	ON	12,000	100%
Tillsonburg Town Centre	Tillsonburg	ON	60,000	100%
Others		ON	13,000	85%
Total			123,000	98%

At the Company's Royal Oak development in Calgary, Alberta, 12,000 square feet of new space was completed in the quarter, and an additional 45,000 square feet is under construction, and scheduled for completion by Q4, 2005. This space under development is substantially pre-leased to tenants including Royal Bank and Home Outfitters. At

REPORT TO SHAREHOLDERS *continued*

Strandherd Crossing in Ottawa, Ontario 26,000 square feet of space was completed during the quarter, including a 16,000 square foot Shoppers Drug Mart. An additional 25,000 square feet of pre-leased space is under construction and scheduled for completion in Q2, 2005. At 3434 Lawrence in Toronto, which is located across the street from Cedarbrae Mall, construction of a new 12,000 square foot Mark's Work Wearhouse has been completed and occupied with an additional 5,000 square foot pad under construction. Construction of a 91,000 square foot mixed use building continues at the Company's King Liberty property in downtown Toronto, Ontario, with scheduled construction completion in Q2, 2006.

In total, development of 123,000 square feet of space was completed during the quarter of which 121,000 square feet was occupied at an average rate of \$16.29 per square foot. These successfully completed development projects highlight the future value of investments in development initiatives that are currently not generating income, but which are expected to contribute significantly to the growth of the Company.

The Company's development sites and properties as at March 31, 2005 are summarized as follows:

	Number of Sites/Properties	Acreage	Developable Square Feet
Properties under development	3	—	160,000
Square footage under development in existing properties	11	—	85,900
Land parcels adjacent to/ part of existing properties	29	60	648,750
Land sites held for future development	6	83	660,000
			<hr/> 1,554,650

In addition to the acquisitions of income producing properties and development assets, the Company invested \$20 million during the first quarter in its active development projects as well as in certain improvements to its existing shopping centre portfolio.

Leasing and Occupancy

Leasing activity in the first quarter resulted in net new leasing of 57,000 square feet, including development coming on line, and renewal leasing of 191,000 square feet. The average rate per occupied square foot increased from \$13.17 at December 31, 2004 to \$13.23 before acquisitions and to \$13.27 after acquisitions.

The occupancy level of the portfolio at March 31, 2005 was 93.9% compared to 93.3% at March 31, 2004 and 94.1% at December 31, 2004. Included in the total vacancy is approximately 220,000 square feet, or 1.6% of the portfolio, which is undergoing or being held for redevelopment.

Properties acquired during the three month period ended March 31, 2005 have an average lease rate per occupied square foot of \$14.55 and occupancy of 95.3%.

REPORT TO SHAREHOLDERS *continued*

Financial Review

Change to Accounting Policy

Effective January 1, 2005, the Company adopted the revisions of CICA 3860 (Financial Instruments). As a result of this change the Company's convertible debentures have been restated to reflect the entire present value of the Company's obligation as a financial liability, with only the value ascribed to the holders' option remaining in Shareholders' equity.

Issue costs related to the convertible debentures have been reclassified from equity to deferred financing costs. Interest and accretion and amortization of issue costs which were previously charged directly to the Deficit have been reclassified to the Statement of Operations. In accordance with the recommendations, prior periods have been restated.

The effect on the Company's balance sheet at December 31, 2004 is as follows:

(thousands of dollars)	Increase/(Decrease)
Assets	\$ 1,547
Liabilities	247,736
Shareholders' equity	(246,189)

The following table summarizes the effect on the Company's statement of operations for the period ended March 31, 2004:

(thousands of dollars)	Increase/(Decrease)
Interest, accretion and amortization	\$ 7,256
Future income tax expense	(2,302)
Net income	(4,954)

There is no change to earnings per share or diluted earnings per share as a result of the retroactive application of this change to Generally Accepted Accounting Principles ("GAAP").

REPORT TO SHAREHOLDERS *continued*

Summary of Quarterly Information

(unaudited) (thousands of dollars, except per share amounts)	Three months ended March 31	
	2005	2004
Real estate investment	\$ 1,942,079	\$ 1,594,721
Total assets	\$ 2,007,137	\$ 1,654,257
Mortgages and credit facilities	\$ 1,054,492	\$ 829,412
Convertible debentures	\$ 96,839	\$ 339,565
Shareholders' equity	\$ 741,998	\$ 429,174
Property rental revenue – Canada	\$ 60,266	\$ 48,454
Property operating expenses – Canada	\$ 23,482	\$ 18,907
Net operating income – Canada	\$ 36,784	\$ 29,547
Dividends received from Equity One, Inc.	\$ 4,532	\$ 4,619
Interest expense	\$ 20,724	\$ 19,703
Net income	\$ 6,351	\$ 2,938
Net income per share - basic	\$ 0.27	\$ 0.08
- diluted	\$ 0.10	\$ 0.08
Funds from operations ⁽¹⁾	\$ 19,296	\$ 13,132
Funds from operations per diluted share ⁽⁴⁾	\$ 0.35	\$ 0.34
Weighted average diluted shares	54,730,436	39,098,047
Debt to market capitalization ⁽²⁾	48.6%	61.9%
Debt to gross real estate assets ⁽²⁾	56.9%	71.8%
Dividends ⁽³⁾	\$ 27,671	\$ 11,965
Dividends per common share ⁽³⁾	\$ 0.30	\$ 0.29

(1) See page 7 for an explanation and reconciliation of funds from operations to net income.

(2) Convertible debentures classified as debt.

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

(4) Including non-recurring income of \$0.01 per diluted share.

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*

Funds from Operations – RealPac Recommendations

First Capital Realty calculates FFO in accordance with the new recommendations of the Real Property Association of Canada (“RealPac”) formerly known as Canadian Institute of Public and Private Real Estate Companies (“CIPPREC”). The new definition is meant to standardize the calculation and disclosure of FFO across real estate companies in Canada, and is modeled on the definition adopted by the National Association of Real Estate Investment Trusts (“NAREIT”) in the United States. The new method of calculation differs from the Company’s historical calculation, and has been adopted by First Capital Realty retroactively effective January 1, 2005.

The Company’s funds from operations are calculated below:

(unaudited)	Three months ended March 31		December 31
(thousands of dollars)	2005	2004	2004
Net income for the period	\$ 6,351	\$ 2,938	\$ 17,887
Add (deduct):			
Amortization of real estate	10,375	7,645	35,136
Gain on disposition of real estate and investments	–	–	(1,163)
Equity income from Equity One, Inc	(4,554)	(4,696)	(18,228)
Proportionate share of funds from operations			
from Equity One, Inc	6,407	6,273	25,923
Dilution gain on investment in Equity One, Inc.	–	–	(3,201)
Future income taxes	717	972	8,310
Funds from operations	\$ 19,296	\$ 13,132	\$ 64,664

Funds from operations for the three months ended March 31, 2005 totalled \$19.3 million or \$0.35 per diluted common share, compared to \$13.1 million or \$0.34 in the first quarter of 2004. In the first quarter of both 2005 and 2004 funds from operation included \$0.01 per diluted share of non-recurring income. The increases in FFO are primarily due to the Company’s property acquisitions and development projects coming on-line.

Funds from operations for the year ended December 31, 2004 using the new method of calculation totalled \$64.7 million or \$1.42 per diluted share. For the year ended December 31, 2004 funds from operations included \$0.04 per diluted share of non-recurring income.

Net Operating Income

(unaudited)	Three months ended March 31	
(thousands of dollars)	2005	2004
Same property	\$ 20,457	\$ 19,950
2004 Acquisitions	5,268	850
2005 Acquisitions	640	–
Development and redevelopment	9,202	8,225
Lease termination income	22	26
Straight-line rent	832	532
Market rent adjustments	287	20
Sold properties and other non-recurring amounts	76	(56)
Net operating income	\$ 36,784	\$ 29,547

REPORT TO SHAREHOLDERS *continued*

Interest and other income

Interest and other income for the three months ended March 31, 2005 totalled \$0.8 million, compared to \$1.0 million in the first quarter of 2004, a decrease of \$0.2 million.

Interest Expense

(thousands of dollars)	Three months ended March 31	
	2005	2004
Mortgages and credit facilities		
Secured by Canadian properties	\$ 13,813	\$ 10,811
Secured by investment in Equity One	1,332	1,174
	<u>15,145</u>	<u>11,985</u>
Convertible Debentures		
Coupon interest	4,640	6,601
Accretion and amortization	939	1,117
	<u>5,579</u>	<u>7,718</u>
Total interest expense	\$ 20,724	\$ 19,703

Mortgages and credit facilities payable have increased as a result of the Company's acquisition and development activities and total \$1,054 million at March 31, 2005 compared with \$829 million at March 31, 2004. With the change in GAAP, the convertible debentures are now shown as liabilities, and total \$97 million at March 31, 2005 compared with \$340 million at March 31, 2004. The change is due primarily to the redemption of the 7.875% series of convertible debentures in August, 2004 and the 7.25% series of convertible debentures in March, 2005. Interest expense totalled \$20.7 million, in the three month period ended March 31, 2005, compared to \$19.7 million in the same prior year period.

The increase in interest expense is primarily due to higher balances of mortgages and credit facilities.

Corporate Expenses

Corporate expenses for the three months ended March 31, 2005 totalled \$3.0 million, compared to \$2.5 million in the first quarter of 2004, an increase of \$0.5 million. Corporate expenses have increased as a result of portfolio growth and related staffing levels including the full internalization of development, leasing, legal, construction management and tenant coordination. In addition, corporate expenses include costs for all other real estate activities and for general corporate purposes and net capital taxes.

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 our internal leasing staff are capitalized to deferred leasing costs and amortized over the life of the related leases. Amounts capitalized to real estate investments and deferred leasing costs during the three months ended March 31, 2005 totalled \$0.8 million compared to \$0.1 million in the prior year comparative period, and \$0.7 million in the three months ended December 31, 2004. The increase in capitalized costs since the prior year comparative period is due to the full internalization of these activities during the

REPORT TO SHAREHOLDERS *continued*

fourth quarter of 2004. As a percentage of gross rental income, corporate expenses have declined from 5.1% for the quarter ended March 31, 2004 to 4.9% for the quarter ended March 31, 2005.

Amortization Expense

Amortization expense has increased to \$11.0 million in the three months ended March 31, 2005 compared to \$8.0 million in the prior year comparative period. The increase is primarily due to the amortization of newly acquired properties and development coming on-line.

Equity One

The Company received dividends from Equity One of US\$3.7 million, or US\$0.29 per share, in the three month period ended March 31, 2005, compared to US\$3.5 million, or US\$0.28 per share, in the three month period ended March 31, 2004. The Canadian dollar equivalent of this dividend is \$4.5 million in the first quarter of 2005 and \$4.6 million in the comparable period of 2004. The absolute dividend increase has been offset by a decline in the average exchange rate for the three month period ended March 31, 2005.

Net Income

Net income for the three months ended March 31, 2005 amounted to \$6.4 million or 27 cents per share basic and 10 cents per share diluted, compared to \$2.9 million, or 8 cents per share basic and diluted, for the three months ended March 31, 2004.

Financing Activities

Shareholders' equity has increased to \$742.0 million from \$548.5 million at December 31, 2004.

On January 26, 2005 the Company completed the sale, on an underwritten private placement basis, of 2,700,000 common shares at a price of \$19.25 per common share, for gross proceeds of approximately \$52 million.

On March 31, 2005, the Company redeemed the outstanding \$161.7 million principal amount of its outstanding 7.25% convertible unsecured subordinated debentures through the issuance of common shares. A total of 8,412,820 shares were issued in connection with the conversion and redemption of these debentures during the quarter.

In the aggregate, the Company has issued 11.9 million common shares during the three month period ended March 31, 2005, including the above transactions, the exercise of options and the payment of interest on its convertible debentures in shares.

In the three month period to March 31, 2005 these financing activities have provided and/or saved funds to the Company totalling \$64 million and reduced debt by \$162 million allowing the Company to grow its business while reducing leverage and increasing the liquidity of its shares.

REPORT TO SHAREHOLDERS *continued*

Outlook

First Capital Realty has made progress in the first quarter toward achieving its 2005 goals:

- increasing the size of the Company's income-producing portfolio while maintaining and enhancing asset quality;
- increasing the cash flow from operations through increased rental rates and portfolio occupancy;
- growing the business while maintaining a responsible and prudent leverage 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 that it is well positioned to continue to deliver increased value to investors over the long term. Pro-active management of its assets, aggressive leasing efforts and successful development initiatives should result in increased net operating income and continued strength in the occupancy of 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 acquisition environment remains extremely competitive. Nevertheless, the Company will continue to acquire properties that are well located and of high quality where they add strategic value and/or operating synergies.

The acquisition of new development sites will continue to provide the Company with opportunities to participate in growth markets and once completed generate higher returns on investment.

On acquisitions of both income producing and development properties, the Company will continue to focus on maintaining the sustainability and growth potential of the rental income to ensure among other things that refinancing risk is minimized. This is particularly important in the current 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 over the long term.

First Capital Realty now calculates FFO in accordance with the new recommendations of RealPac. Under this new method of calculation, the Company's 2004 FFO per diluted share is \$1.42, including non-recurring income of \$0.04. See page 7 for further information.

First Capital Realty's 2005 diluted FFO per share guidance is being forecast at \$1.46 to \$1.50 per diluted share, taking into consideration a U.S. exchange rate at \$1.23 Canadian, with 2005 acquisitions of over \$250 million.

CONSOLIDATED BALANCE SHEETS

(unaudited)	March 31	December 31
(thousands of dollars)	2005	2004
		(Restated - note 2)
ASSETS		
Real Estate Investments		
Shopping centres (note 3)	\$ 1,577,945	\$ 1,489,250
Land and shopping centres under development	72,141	74,957
Deferred costs	36,723	31,884
Intangible assets	15,011	13,508
	1,701,820	1,609,599
Investment in Equity One, Inc.	209,769	203,988
Loans, mortgages and other real estate assets	30,490	18,130
	1,942,079	1,831,717
Other assets	27,772	26,033
Amounts receivable	18,174	14,276
Cash and cash equivalents	449	4,883
Future income tax assets	18,663	16,688
	\$ 2,007,137	\$ 1,893,597
LIABILITIES		
Mortgages and credit facilities	\$ 1,054,492	\$ 1,002,965
Accounts payable and other liabilities	89,954	72,048
Convertible debentures payable (note 4)	96,839	247,736
Future income tax liabilities	23,854	22,355
	1,265,139	1,345,104
SHAREHOLDERS' EQUITY (note 5)	741,998	548,493
	\$ 2,007,137	\$ 1,893,597

See accompanying notes to the consolidated interim financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (thousands of dollars, except per share amounts)	Three months ended	
	March 31 2005	March 31 2004
		(Restated - note 2)
REVENUE		
Property rental revenue	\$ 60,266	\$ 48,454
Interest and other income	795	1,031
	61,061	49,485
EXPENSES		
Property operating costs	23,482	18,907
Interest expense (note 6)	20,724	19,703
Amortization	10,983	7,994
Corporate expenses	2,975	2,486
	58,164	49,090
Equity income from Equity One, Inc.	4,554	4,696
Gain on redemption of convertible debentures	841	—
Income before income and other taxes	8,292	5,091
Income and other taxes:		
Current	1,224	1,181
Future	717	972
	1,941	2,153
Net income	\$ 6,351	\$ 2,938
Net earnings per common share (note 7)		
Basic	\$ 0.27	\$ 0.08
Diluted	\$ 0.10	\$ 0.08

See accompanying notes to the consolidated interim financial statements

CONSOLIDATED STATEMENTS OF DEFICIT

(unaudited) (thousands of dollars)	Three months ended	
	March 31 2005	March 31 2004
		(Restated - note 2)
Deficit, beginning of period	\$ (133,163)	\$ (96,279)
Net income for the period	6,351	2,938
Dividends	(27,671)	(11,965)
Deficit, end of period	\$ (154,483)	\$ (105,306)

See accompanying notes to the consolidated interim financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (thousands of dollars)	Three months ended	
	March 31 2005	March 31 2004
		(Restated - note 2)
CASH FLOW PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	\$ 6,351	\$ 2,938
Items not affecting cash		
Amortization	10,434	7,685
Amortization of deferred financing fees	549	309
Amortization of above- and below-market leases	(287)	(20)
Amortization of deferred rent receivable	(1,070)	(757)
Gain on disposition of marketable securities	(46)	–
Gain on redemption of convertible debentures	(841)	–
Non-cash compensation expense	371	91
Convertible debenture interest rate in excess of coupon	939	1,117
Convertible debenture interest paid in common shares	6,390	3,500
Equity income from Equity One, Inc.	(4,554)	(4,696)
Future income taxes	717	972
Deferred leasing costs	(3,001)	(529)
Dividends received from Equity One, Inc.	4,532	4,619
Net change in accrued dividend payable	12,094	(9,399)
Net change in non-cash operating items	(17,884)	(3,210)
Cash provided by operating activities	14,694	2,620
INVESTING ACTIVITIES		
Acquisition of shopping centres	(46,539)	(63,089)
Acquisition of land for development	(3,045)	(4,360)
Acquisition of deferred costs	(3,887)	(1,841)
Acquisition of intangible assets and liabilities – net	3,063	2,248
Expenditures on shopping centres	(4,776)	(2,470)
Expenditures on land and shopping centres under development	(12,330)	(12,516)
Investment in common shares of Equity One, Inc.	(4,532)	–
Repayment from (advances to) development partners	985	(1,099)
Investment in marketable real estate securities	(13,969)	(252)
Proceeds on disposition of marketable real estate securities	863	–
Cash used in investing activities	(84,167)	(83,379)
FINANCING ACTIVITIES		
Proceeds of mortgage financings and credit facilities	72,423	35,058
Repayments of mortgages payable and credit facilities	(47,565)	(8,066)
Payment of financing fees	(812)	(340)
Issuance of common shares	56,376	83,204
Payment of dividends	(15,398)	(21,355)
Cash provided by financing activities	65,024	88,501
Effect of currency rate movement on cash balances	15	71
(Decrease) increase in cash and cash equivalents	(4,434)	7,813
Cash and cash equivalents, beginning of period	4,883	79
Cash and cash equivalents, end of period	\$ 449	\$ 7,892
SUPPLEMENTARY INFORMATION		
Cash income taxes paid	\$ 543	\$ 402
Cash interest paid (note 6)	\$ 16,186	\$ 15,988

See accompanying notes to the consolidated interim financial statements

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2005 (unaudited)

1 Significant 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, 2004 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, 2004 annual consolidated financial statements.

2 Changes in Accounting Policies

(i) Convertible Debentures

Effective January 1, 2005, the Company adopted the CICA's new accounting requirements on the classification of financial instruments as liabilities or equity. The CICA amended its disclosure requirements surrounding the presentation of financial instruments that may be settled, at the issuer's discretion, in cash or with a variable number of the issuer's own equity instruments, as liabilities. As a result of these new guidelines, a portion of convertible debentures previously presented as equity on the Company's balance sheet has been reclassified to debt. Correspondingly, interest expense and related amortization of issue costs recognized on the convertible debentures are presented on the consolidated statements of operations as opposed to its previous presentation on the consolidated statements of deficit. The value ascribed to the conversion rights of the holders and related issue costs remain in shareholders' equity. These presentation changes had no impact on the Company's earnings per share. This change has been applied retroactively and had the following impact on the Company's consolidated balance sheet at December 31, 2004.

(thousands of dollars)	Increase (Decrease)
Assets	\$ 1,547
Liabilities	247,736
Shareholders' equity	(246,189)

The impact on the consolidated statement of operations for the three month period ended March 31, 2004 was as follows:

(thousands of dollars)	Increase (Decrease)
Interest, accretion and amortization	\$ 7,256
Future income tax expense	(2,302)
Net income	(4,954)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

2 Changes in Accounting Policies continued

(ii) Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 (AcG15), Consolidation of Variable Interest Entities ("VIE"), which is effective January 1, 2005. AcG15 provides guidance on identifying entities for which control is achieved through means other than voting rights, and how to determine when and which business enterprises should consolidate the VIE. The adoption of this change in accounting policy did not have a material impact on the consolidated interim financial statements.

3 Shopping Centres

(thousands of dollars)	March 31 2005	December 31 2004
Land	\$ 335,879	\$ 312,921
Buildings and improvements	1,315,517	1,241,895
	1,651,396	1,554,816
Accumulated amortization	(73,451)	(65,566)
	\$ 1,577,945	\$ 1,489,250

During the first quarter of 2005, six properties totalling 0.4 million square feet were acquired for \$72.7 million. The properties were financed with \$37.1 million in cash, \$25.3 million in assumed mortgages, and \$10.3 million in new mortgages.

The Company's interests in two leasehold properties (2004 – two) have a net book value of \$29.1 million (2004 – \$21.7 million), net of accumulated amortization of \$2.4 million (2004 – \$2.2 million).

4 Convertible Debentures Payable

The following table summarizes the terms of the convertible debentures:

Interest Rate	Conversion Price	Maturity	Earliest Redemption Date
7.00%	\$22.71 per common share	February 28, 2008	February 28, 2004
7.25%	\$24.40 per common share	June 30, 2008	Redeemed March 2005

Components of the convertible debentures:

(thousands of dollars)		March 31, 2005			December 31, 2004		
Interest Rate					(Restated - note 2)		
Coupon	Implicit	Principal	Liability	Equity	Principal	Liability	Equity
7.00%	8.25%	\$ 99,999	\$ 96,839	\$ 8,238	\$ 99,999	\$ 96,595	\$ 8,238
7.25%	9.6%	–	–	–	161,702	151,141	8,279
		\$ 99,999	\$ 96,839	\$ 8,238	\$ 261,701	\$ 247,736	\$ 16,517

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

4 Convertible Debentures Payable

continued

On March 31, 2005, the Company redeemed the outstanding \$161.7 million principal amount of the 7.25% convertible debentures with 8,411,386 shares. Prior to the redemption date, holders of \$0.035 million principal amount of 7.25% convertible debentures converted their debentures in accordance with the terms and conditions of the trust indenture. Accounting for the early redemption of the 7.25% convertible debentures resulted in a gain of \$0.8 million and an increase to contributed surplus of \$8.4 million.

During the first quarter of 2005, 187,864 (2004 – 229,051) common shares were issued to pay interest to holders of the 7.0% convertible debentures and 150,361 (2004 - nil) common shares were issued to pay accrued interest to holders of the 7.25% convertible debentures on the redemption date.

5 Shareholders' Equity

(thousands of dollars)	March 31 2005	December 31 2004
		(Restated - note 2)
Share capital (a)	\$ 887,061	\$ 673,660
Equity component of convertible debentures (note 4)	8,238	16,517
Warrants (c)	711	711
Options and deferred share units (d) (e)	1,752	1,273
Cumulative currency translation adjustment (f)	(12,556)	(13,347)
Contributed surplus (note 4)	11,275	2,842
Deficit	(154,483)	(133,163)
	\$ 741,998	\$ 548,493

(a) Share Capital

	Number of Common Shares	Stated Capital (thousands of dollars)
Issued and outstanding at December 31, 2004	51,659,583	\$ 673,660
Issuance of common shares (b)	2,700,000	51,975
Redemption of 7.25% convertible debentures (note 4)	8,411,386	149,891
Conversion of 7.25% convertible debentures (note 4)	1,434	35
Payment of interest on convertible debentures (note 4)	338,225	6,390
Exercise of options (d)	434,895	6,167
Issue costs, net of income taxes of \$628,000	—	(1,057)
Issued and outstanding at March 31, 2005	63,545,523	\$ 887,061

(b) Issuance of Common Shares

On January 26, 2005, 2,700,000 common shares were issued at a price of \$19.25 per share, for total gross proceeds of \$52.0 million, before commission and issue costs.

(c) Warrants

At March 31, 2005, there were 927,405 outstanding share purchase warrants (December 31, 2004 – 927,405) exercisable at \$11.80 per share during a three-month exercise period commencing on June 1 and ending on August 31 in each year to 2008, on and subject to certain terms and conditions, and may be exercisable in certain other limited circumstances. In the three months ended March 31, 2005, there were no warrants exercised.

5
Shareholders'
Equity
continued

(d) Stock Options

The Company is authorized to grant up to 2,125,000 (December 31, 2004 – 2,125,000) common share options to the employees, officers and directors of the Company and third party service providers. As of March 31, 2005, 395,000 (December 31, 2004 – 395,000) 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 \$19.11.

	Three months ended			
	March 31 2005		March 31 2004	
	Common Share Options	Weighted Average Exercise Price	Common Share Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,257,550	\$ 14.49	1,318,000	\$ 13.44
Granted	15,000	\$ 19.11	–	\$ –
Exercised	(434,895)	\$ 13.99	(72,000)	\$ 12.99
Cancelled	(15,000)	\$ 13.82	(5,000)	\$ 15.65
Outstanding, end of period	822,655	\$ 14.49	1,241,000	\$ 13.45
Options vested at end of period	302,197	\$ 13.58	891,833	\$ 13.28
Weighted average remaining life (years)	7.9		7.2	

During the three months ended March 31, 2005, the Company granted 15,000 options (2004 – nil) which had an approximate fair value of \$0.3 million (2004 – \$nil) at the time of issue. In the three months ended March 31, 2005, \$0.1 million (2004 – \$ nil) has been recorded as an expense due to the vesting of options granted after January 1, 2003.

(e) Share Unit Plans

The Company's share unit plans include a Directors Deferred Share Unit Plan, an Employee Restricted Share Unit Plan ("Employee RSU Plan") and a Chief Executive Officer Restricted Share Unit Plan ("CEO RSU Plan"). A total of 350,000 common shares are reserved for issuance under these plans. As at March 31, 2005, 36,675 units have been granted under the Directors Deferred Share Unit Plan, and \$0.1 million has been recorded as an expense in the three months ended March 31, 2005 (2004 - \$0.1 million).

As at March 31, 2005, 86,287 units have been granted under the CEO RSU plan (including accrued dividends) and \$0.2 million has been recorded as an expense in the three months ended March 31, 2005 (2004 - \$nil).

As at March 31, 2005, 43,144 units have been granted under the Employee RSU Plan (including accrued dividends) and \$0.1 million has been recorded as an expense in the three months ended March 31, 2005 (2004 - \$nil).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

5
Shareholders'
Equity
continued

(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 year reflects the impact of U.S. currency movements during the period on these net assets.

The rate of exchange in effect on March 31, 2005 was US\$1.00 = Cdn\$1.21 (December 31, 2004 – Cdn\$1.20). The average rate of exchange for the three months ended March 31, 2005 was US\$1.00 = Cdn\$1.23 (2004 – Cdn\$1.32).

6
Interest

	Three months ended	
	March 31 2005	March 31 2004
(thousands of dollars)		(Restated - note 2)
Mortgage and credit facility interest expense	\$ 15,145	\$ 11,985
Convertible debenture interest expense	5,579	7,718
Interest expense	20,724	19,703
Less: convertible debenture interest paid in common shares	(6,390)	(3,500)
Change in accrued interest	1,371	–
Implicit interest rate in excess of coupon rate	(939)	(1,117)
Interest capitalized to land and shopping centres		
under development	1,209	911
Other	211	(9)
Cash interest paid	\$ 16,186	\$ 15,988

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

7

Per Share
Calculations

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

(thousands of dollars, except per share amounts)	Three months ended	
	March 31 2005	March 31 2004
Net Income	\$ 6,351	\$ 2,938
Contributed surplus on redemption of convertible debentures	8,433	—
Basic net income available to common shareholders	\$ 14,784	\$ 2,938
Net Income	\$ 6,351	\$ 2,938
Interest expense and issue costs amortization		
on convertible debentures, net of tax	2,314	—
Gain on settlement of convertible debentures, net of tax	(2,364)	—
Diluted net income available to common shareholders	\$ 6,301	\$ 2,938
Denominator		
Weighted average shares outstanding for basic		
per share amounts	54,067,694	37,480,009
Series D convertible debentures	6,553,476	—
Outstanding warrants	373,029	1,383,338
Outstanding options	289,713	234,700
Denominator for diluted net income available to		
common shareholders	61,283,912	39,098,047
Basic earnings per share	\$ 0.27	\$ 0.08
Diluted earnings per share	\$ 0.10	\$ 0.08

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

	Exercise Price	Number of shares if converted or exercised	
		2005	2004
Convertible debentures — 7.875%	\$ 16.43	—	5,935,606
Convertible debentures — 7.0%	\$ 22.71	4,403,307	4,403,307
Convertible debentures — 7.25%	\$ 24.40	—	6,627,127

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

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 March 31, 2005, is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	\$ 60,266	\$ —	\$ 60,266
Property operating costs	23,482	—	23,482
Net operating income	36,784	—	36,784
Equity income from Equity One, Inc.	—	4,554	4,554
Interest and other income	795	—	795
Interest expense	19,392	1,332	20,724
Corporate expenses	2,668	307	2,975
Operating income before amortization	15,519	2,915	18,434
Amortization	10,949	34	10,983
Operating income	\$ 4,570	\$ 2,881	\$ 7,451

Operating income by geographic segment for the three months ended March 31, 2004, is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
			(Restated - note 2)
Property rental revenue	\$ 48,454	\$ —	\$ 48,454
Property operating costs	18,907	—	18,907
Net operating income	29,547	—	29,547
Equity income from Equity One, Inc.	—	4,696	4,696
Interest and other income	1,031	—	1,031
Interest expense	18,529	1,174	19,703
Corporate expenses	2,423	63	2,486
Operating income before amortization	9,626	3,459	13,085
Amortization	7,964	30	7,994
Operating income	\$ 1,662	\$ 3,429	\$ 5,091

9 Contingencies

- (a) The Company is contingently liable, jointly and severally, for approximately \$31.7 million (December 31, 2004 – \$30.3 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 also contingently liable for letters of credit in the amount of \$11.4 million (December 31, 2004 – \$10.9 million) issued in the ordinary course of business.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

10

Subsequent Events

- (a) Effective April 1, 2005, the Company entered into a 50% joint-venture arrangement with Brookfield Lepage Johnson Controls (BLJC) to operate its basic property management services. The Company has a 60% economic interest in the joint venture. Effective with this arrangement, the Company terminated its existing property management agreement.
 - (b) The Company purchased interests in five properties totalling 524,000 square feet for approximately \$90.5 million. Consideration paid was \$46.6 million in cash, \$6.7 million in assumed mortgages and \$37.2 million in new mortgage financing.
-

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Comparative Amounts

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

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