



# FIRST CAPITAL REALTY INC.

## SECOND 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)	Six months ended June 30	
	2005	2004 <sup>(1)</sup>
Number of properties	118	98
Real estate investments	\$ 2,123,742	\$ 1,724,972
Shareholders' equity	\$ 732,714	\$ 452,431
Revenues	\$ 125,709	\$ 103,557
Net operating income (NOI)	\$ 76,418	\$ 61,459
Funds from operations (FFO)	\$ 42,398	\$ 28,934
FFO per diluted share	\$ 0.71	\$ 0.70
FFO per diluted share-recurring	\$ 0.70	\$ 0.68
Debt to gross assets	58.4%	69.5%
Debt to total market capitalization	51.0%	64.3%
Common shares outstanding	63,706,706	43,608,115

<sup>(1)</sup> Comparative figures have been restated to reflect the change in accounting standards with respect to convertible debentures which is further described in the management's discussion and analysis and consolidated financial statements.

## Second Quarter HIGHLIGHTS - Three months ended June 30, 2005

- Property rental revenue increased 21% to \$63.4 million from \$52.6 million last year.
- Invested \$183 million in acquisitions, development activities and property improvements adding 938,000 square feet of gross leasable area.
- Net operating income (NOI) increased 24% to \$39.6 million over the prior year second quarter.
- 1.7% same property NOI growth; 6.7% increase on renewal leases.
- Portfolio occupancy of 94.7% at June 30, 2005 increased from 93.8% at June 30, 2004.
- Funds from operations rose 46% to \$23.1 million over the prior year second quarter.
- FFO of \$0.36 per diluted share compares to \$0.36 in the prior year second quarter.
- Weighted average number of diluted common shares increased to 64,327,921 in the second quarter of 2005 compared to 43,366,400 in the second quarter of 2004.
- Debt to market capitalization improved to 51.0% from 64.3% at June 30, 2004.
- Issued \$100 million senior unsecured debentures at 5.08% maturing June 21, 2012, rated BBB (-) with a stable trend by Dominion Bond Rating Service.

## GROSS LEASABLE AREA

(millions of square feet)



Quarter ended June 30  
04 05

## FUNDS FROM OPERATIONS

(\$ millions)



Quarter ended June 30  
04 05

# REPORT TO SHAREHOLDERS

## Management's Discussion and Analysis of Financial Position and Results of Operations

Certain statements included in this MD&A constitute forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts but reflect the Company's current expectations regarding future results or events and are based on information currently available to management.

Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions; however, management can give no assurance that actual results will be consistent with these forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under "Risk Management" in the MD&A contained in the Company's 2004 Annual Report.

Factors that could cause actual results or events to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, general economic conditions, the availability of new competitive supply of retail properties which may become available either through construction or sublease, First Capital Realty's ability to maintain occupancy and to lease or re-lease space at current or anticipated rents, tenant bankruptcies, financial difficulties and defaults, changes in interest rates, changes in operating costs, First Capital Realty's ability to obtain insurance coverage at a reasonable cost and the availability of financing.

These forward-looking statements are made as of August 11, 2005.

## Introduction

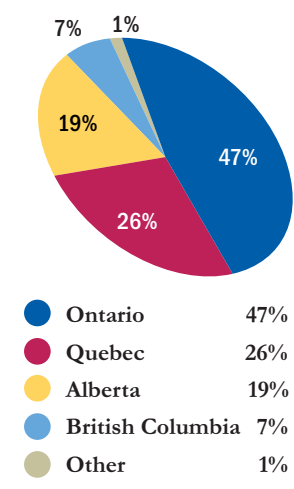
Management's Discussion and Analysis ("MD&A") of financial condition and results of operations is intended to provide readers with an assessment of our performance during the second quarter of this year and the prior year and summarizes our results of operations and financial condition for the six month period ended June 30, 2005. It should be read in conjunction with the 2005 Second 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 Annual Report and Annual Information Form are available on SEDAR's website at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.firstcapitalrealty.ca](http://www.firstcapitalrealty.ca).

## Business and Operations Review

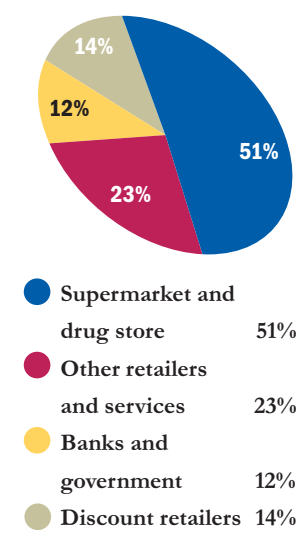
First Capital Realty Inc. (TSX:FCR) is Canada's leading owner, developer and operator of supermarket anchored neighbourhood and community shopping centres located predominantly in growing metropolitan areas. As of June 30, 2005, the Company owns interests in 118 properties, including three under development, with approximately 14.4 million square feet of gross leasable area. Over 92% of our properties are anchored by a supermarket and/or drug store, the two most popular destinations for everyday shopping.

The Company also owns 13.0 million shares (approximately 17.7%) 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

ANNUAL MINIMUM RENT BY PROVINCE



TOP 30 TENANTS ANNUAL MINIMUM RENT BY TYPE



## REPORT TO SHAREHOLDERS *continued*

at June 30, 2005 comprised 189 properties totalling 19.7 million square feet. Including properties held through its investment in Equity One, at June 30, 2005 the Company had interests in 307 properties totalling approximately 34.1 million square feet of gross leasable area.

The Company's properties are summarized as follows:

June 30	2005			2004		
	Gross Leasable		Percent Occupied	Gross Leasable		Percent Occupied
Number of Properties	Area (000s sq. ft.)	Number of Properties		Area (000s sq. ft.)		
Ontario	46	6,492	95.3%	39	5,887	94.7%
Quebec	43	4,267	94.4%	40	3,967	93.2%
Alberta	17	2,562	93.3%	14	2,181	92.2%
British Columbia	8	915	97.2%	1	270	99.6%
Other	4	184	88.6%	4	184	88.9%
<b>Total</b>	<b>118</b>	<b>14,420</b>	<b>94.7%</b>	<b>98</b>	<b>12,489</b>	<b>93.8%</b>

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

(\$ millions)

Acquisition of income-producing properties	\$ 146.1
Acquisition of additional space and land parcels adjacent to existing properties	8.2
Additional interest in existing property	5.2
Property held for development	7.0
Active development and portfolio improvement	16.5
	<b>\$ 183.0</b>

During the second quarter of 2005, the Company acquired eight income producing shopping centres; one in Ontario, two in Alberta, three in British Columbia and two in Quebec, comprising a total of approximately 815,000 square feet of gross leasable area. The aggregate acquisition amount of \$146.1 million, including closing costs, was funded through the assumption of \$30 million in mortgage debt and \$46 million in new mortgage financing, with the balance paid in cash.

The Company invested \$13.4 million in acquiring additional space at existing centres comprising 46,000 square feet, two parcels of land adjacent to existing centres comprising 1.2 acres and an additional 50% interest in the Company's Northfield Centre in Waterloo, Ontario.

Through the first six months of 2005, the Company has invested \$235.1 million in the acquisition of 14 income producing retail properties and additional interests in properties totalling 1,264,000 square feet of gross leasable area.

The Company also acquired a 7.7 acre development site for \$7.0 million in Oakville, Ontario.

## REPORT TO SHAREHOLDERS *continued*

In the second quarter of 2005, 77,000 square feet of newly developed retail space came on-line in the following shopping centres:

Property Name	City	Province	Gross Leasable Area (Square Feet)
Sherwood Towne Centre	Edmonton	Alberta	29,551
Strandherd Crossing	Ottawa	Ontario	15,392
Royal Oak	Calgary	Alberta	9,740
Red Deer Village	Red Deer	Alberta	5,945
3434 Lawrence	Toronto	Ontario	4,550
Carrefour De Versant	Montreal	Quebec	4,308
Other			7,514
<b>Total</b>			<b>77,000</b>

At the Company's Sherwood Towne Centre development in Edmonton, Alberta 29,551 square foot of new space was completed in the quarter, comprising of a 20,323 square foot Michaels and a 9,228 square foot Royal Bank. At Royal Oak in Calgary, Alberta 9,740 square feet of new space was completed in the quarter, and an additional 34,000 square feet is under construction, and scheduled for completion by Q4, 2005. This space under development is pre-leased to Home Outfitters. At Strandherd Crossing in Ottawa, Ontario 15,392 square feet of CRU space was completed during the quarter, including a TD Canada Trust Bank and a medical clinic. 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 77,000 square feet of space was completed during the quarter, of which 73,000 square feet was occupied at an average rate of \$21.64 per square foot. Year-to-date the Company has developed 200,000 square feet of space of which 194,000 was occupied at an average rate of \$18.30 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.

## REPORT TO SHAREHOLDERS *continued*

The Company's development sites and properties as at June 30, 2005 are summarized as follows:

	Number of Sites/Properties	Acreage	Developable Square Feet
Properties under development	3	—	149,000
Square footage under development in existing properties	6	—	54,000
Land parcels adjacent to/ part of existing properties	31	59.05	640,250
Land sites held for future development	7	90.06	727,000
			1,570,250

In addition to the acquisitions of income producing properties and development assets, the Company invested \$16.5 million during the second quarter in its active development projects as well as in certain improvements to its existing properties. For the first six months of 2005, investments in these activities totalled \$36.5 million.

### **Leasing and Occupancy**

Leasing activity in the second quarter resulted in net new leasing of 134,000 square feet, including development coming on line, and renewal leasing of 172,000 square feet. The Company achieved a 6.7% increase on renewal leases over expiring rents. For the six months ended June 30, 2005, net new leasing totalled 191,000 square feet, including development coming on-line, and renewal leasing totalled 363,000 square feet. The average rate per occupied square foot at June 30, 2005 increased to \$13.33 per square foot prior to acquisitions from \$13.17 at December 31, 2004 and \$12.85 at June 30, 2004.

The occupancy level of the portfolio at June 30, 2005 was 94.7% compared to 93.8% at June 30, 2004 and 94.1% at December 31, 2004. Included in the total vacancy is approximately 142,000 square feet, or 1.0% of the portfolio, which is undergoing or being held for redevelopment.

Properties acquired during the six month period ended June 30, 2005 have an average lease rate per occupied square foot of \$13.87 and occupancy of 96.2%.

## REPORT TO SHAREHOLDERS *continued*

### Financial Review

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#### Changes to Accounting Policies

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 was as follows:

(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 and six month periods ended June 30, 2004 was as follows:

(thousands of dollars)	Three months Increase (Decrease)	Six months Increase (Decrease)
Interest, accretion and amortization	\$ 7,262	\$ 14,518
Future income tax expense	(2,304)	(4,606)
Net income	(4,958)	(9,912)

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").

In June 2003, the CICA issued Accounting Guideline 15 (AcG15), Consolidation of Variable Interest Entities ("VIE"), which was 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.

## REPORT TO SHAREHOLDERS *continued*

### Summary of Quarterly Information

(unaudited) (thousands of dollars, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
	Restated <sup>(1)</sup>		Restated <sup>(1)</sup>	
Real estate investments			\$ 2,123,742	\$ 1,724,972
Total assets			\$ 2,214,076	\$ 1,779,647
Mortgages and credit facilities			\$ 1,167,915	\$ 918,485
Unsecured debentures			\$ 100,000	\$ —
Convertible debentures			\$ 97,081	\$ 340,688
Shareholders' equity			\$ 732,714	\$ 452,431
Property rental revenue – Canada	\$ 63,403	\$ 52,613	\$ 123,669	\$ 101,067
Property operating expenses – Canada	\$ 23,769	\$ 20,701	\$ 47,251	\$ 39,608
Net operating income – Canada	\$ 39,634	\$ 31,912	\$ 76,418	\$ 61,459
Dividends received from Equity One, Inc.	\$ 4,662	\$ 4,663	\$ 9,194	\$ 9,282
Interest expense	\$ 19,371	\$ 20,194	\$ 40,095	\$ 39,897
Net income	\$ 6,479	\$ 3,534	\$ 12,830	\$ 6,472
Net income per share - basic	\$ 0.10	\$ 0.08	\$ 0.36	\$ 0.16
- diluted	\$ 0.10	\$ 0.08	\$ 0.20	\$ 0.16
Weighted average diluted shares	64,327,921	43,366,400	62,818,701	41,155,689
Funds from operations <sup>(2)</sup>	\$ 23,102	\$ 15,802	\$ 42,398	\$ 28,934
Funds from operations per diluted share <sup>(3)</sup>	\$ 0.36	\$ 0.36	\$ 0.71	\$ 0.70
Weighted average diluted shares	64,327,921	43,366,400	59,560,066	41,155,689
Debt to market capitalization			51.0%	64.3%
Debt to gross assets			58.4%	69.5%
Dividends per common share			\$ 0.60	\$ 0.58
Number of shares outstanding at quarter end			63,706,706	43,608,115
Dividends - special per common share paid April 6, 2005			\$ 0.20	\$ —

(1) Restated for adoption of change in accounting policy regarding convertible debentures see page 18.

(2) See page 8 for an explanation and reconciliation of funds from operations to net income.

(3) Including non-recurring income of \$0.01 per diluted share in 2005 and \$0.02 per diluted share in 2004.

## REPORT TO SHAREHOLDERS *continued*

### 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 operating activities 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 the purpose of evaluating operating performance.*

### 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 entities 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 on January 1, 2005 and applied retroactively.*

The Company's funds from operations are calculated below:

(unaudited)	Three months ended June 30		Six months ended June 30	
(thousands of dollars)	2005	2004	2005	2004
Net income for the period	\$ 6,479	\$ 3,534	\$ 12,830	\$ 6,472
Add (deduct):				
Amortization of real estate	11,761	8,035	22,136	15,680
Gain on disposition of real estate	(226)	—	(226)	—
Equity income from Equity One, Inc	(5,101)	(4,428)	(9,655)	(9,124)
Proportionate share of funds from operations from Equity One, Inc	6,912	6,812	13,319	13,085
Future income taxes	3,277	1,849	3,994	2,821
Funds from operations	\$ 23,102	\$ 15,802	\$ 42,398	\$ 28,934

## REPORT TO SHAREHOLDERS *continued*

Funds from operations for the three months ended June 30, 2005 totalled \$23.1 million or \$0.36 per diluted common share, compared to \$15.8 million or \$0.36 in the second quarter of 2004. FFO for the first half of 2005 totalled \$42.4 million or \$0.71 per diluted share, compared to \$28.9 million or \$0.70 per diluted share for the comparable period in 2004. The increases in FFO in the three and six month periods ended June 30, 2005 respectively are primarily due to the Company's income 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

*Net operating income is defined as property rental revenue less property operating costs (see note 9 to the consolidated financial statements). In management's opinion, net operating income is useful in analyzing the operating performance of the Company's shopping centre portfolio. Net operating income is not a measure defined by GAAP and there is no standard definition of net operating income. Accordingly, net operating income may not be comparable with similar measures presented by other entities.*

(unaudited) (thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Same property	\$ 23,665	\$ 23,263	\$ 44,574	\$ 43,847
2004 Acquisitions	4,178	1,004	11,157	3,509
2005 Acquisitions	2,669	—	3,310	—
Development and redevelopment	7,579	6,370	14,393	12,324
Lease termination income	255	47	277	73
Straight-line rent	843	732	1,675	1,264
Market rent adjustments	187	125	474	145
Sold properties and other non-recurring amounts	258	371	558	297
<b>Net operating income</b>	<b>\$ 39,634</b>	<b>\$ 31,912</b>	<b>\$ 76,418</b>	<b>\$ 61,459</b>

Net operating income for the three months ended June 30, 2005 totalled \$39.6 million, compared to \$31.9 million in the second quarter of 2004, an increase of \$7.7 million or 24%. In the six month period ended June 30, 2005, net operating income totalled \$76.4 million, compared to \$61.5 million for the same prior year period, an increase of \$14.9 million or 24%. Acquisitions during 2005, combined with the effect of acquisitions in the prior year, contributed \$6.8 million to net operating income in the quarter, while development and redevelopment activities contributed a further \$7.6 million. Year-to-date, acquisitions completed in 2005 and 2004 contributed \$14.5 million, while development and redevelopment activities contributed a further \$14.4 million. Same property net operating income increased 1.7% generating growth of \$0.4 million and \$0.7 million in the three and six months periods ended June 30, 2005, respectively.

## REPORT TO SHAREHOLDERS *continued*

### Interest and other income

Interest and other income for the three months ended June 30, 2005 totalled \$1.2 million, compared to \$1.5 million in the second quarter of 2004, a decrease of \$0.3 million. In the six month period ended June 30, 2005, interest and other income was \$2.0 million compared to \$2.5 million in the same period in the prior year, a decrease of \$0.5 million.

Interest and other income includes a gain on disposition of real estate land of \$226,000 for the three months ended June 30, 2005. In the three and six months ended June 30, 2004, interest and other income included \$600,000 of non-recurring income on certain high yield cash flow participation loans, in which the Company had a non-recourse interest.

### Interest Expense

(thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
		Restated		Restated
Mortgages and credit facilities				
Secured by Canadian properties	\$ 15,406	\$ 11,215	\$ 29,219	\$ 22,026
Secured by investment in Equity One	1,834	1,256	3,166	2,430
	<b>17,240</b>	<b>12,471</b>	<b>32,385</b>	<b>24,456</b>
Unsecured Debentures	139	—	139	—
Convertible Debentures interest				
Coupon interest	1,750	6,600	6,390	13,201
Accretion and amortization	242	1,123	1,181	2,240
Total interest expense	\$ 19,371	\$ 20,194	\$ 40,095	\$ 39,897

Mortgages and credit facilities payable have increased as a result of the Company's acquisition and development activities and total \$1,168 million at June 30, 2005 compared with \$918 million at June 30, 2004. The increase in interest expense from mortgages and credit facilities is primarily due to higher balances of mortgages and credit facilities.

On June 21, 2005 the Company issued \$100 million of senior unsecured debentures at a coupon rate of 5.08%.

The convertible debentures are shown as liabilities on a retroactive basis effective January 1, 2005, and total \$97 million at June 30, 2005 compared with \$341 million at June 30, 2004. The reduction in convertible debenture interest expense 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.

## REPORT TO SHAREHOLDERS *continued*

### **Corporate Expenses**

Corporate expenses for the three and six months ended June 30, 2005 totalled \$3.3 million and \$6.3 million, compared to \$2.7 million and \$5.2 million, respectively, in 2004.

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 lives of the related leases. Amounts capitalized to real estate investments and deferred leasing costs during the three and six months ended June 30, 2005 totalled \$1.4 million and \$2.3 million, compared to \$0.1 million and \$0.2 million in the prior year comparative periods. The increase in capitalized costs is due to the full internalization of these activities during the fourth quarter of 2004 and first half of 2005.

### **Amortization Expense**

Amortization expense has increased to \$12.3 million and \$23.2 million in the three and six month periods ended June 30, 2005 compared to \$8.4 million and \$16.4 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 June 30, 2005, compared to US\$3.5 million, or US\$0.28 per share, in the three month period ended June 30, 2004. The Canadian dollar equivalent of this dividend is \$4.7 million in the second quarter of 2005 and \$4.7 million in the comparable period of 2004. The Company received dividends from Equity One of US\$7.4 million, or US\$0.58 per share, in the six month period ended June 30, 2005, compared to US\$7.0 million, or US\$0.56 per share, in the six month period ended June 30, 2004. The Canadian dollar equivalent of this dividend is \$9.2 million in the second quarter of 2005 and \$9.3 million in the comparable period of 2004. The absolute dividend increase has been offset by a decline in the average currency exchange rate for the three and six month period ended June 30, 2005.

### **Net Income**

Net income for the three and six months ended June 30, 2005 amounted to \$6.5 million or 10 cents per share diluted and \$12.8 million or 20 cents per diluted share, respectively. These results compare to \$3.5 million, or 8 cents per share basic and diluted, for the three months ended June 30, 2004 and \$6.5 million or 16 cents per share basic and diluted for the six months ended June 30, 2004.

## REPORT TO SHAREHOLDERS *continued*

### **Financing Activities**

On June 21, 2005 the Company issued \$100 million principal amount of 5.08% senior unsecured debentures, with a maturity date of June 21, 2012. Dominion Bond Rating Services has provided First Capital Realty with a credit rating of BBB (low) with a stable trend relating to the debentures. The proceeds of this offering were used to repay the Company's credit facilities to fund acquisitions and development activities and for general corporate purposes.

On July 12, 2005 the Company increased the amount of its US loan facility to US\$120 million and extended the maturity to July, 2010.

Shareholders' equity has increased to \$733 million at June 30, 2005.

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 approximately 12 million common shares during the six month period ended June 30, 2005, including the above transactions, the exercise of options and warrants and the payment of interest on its convertible debentures in shares.

These debt and equity financings have provided the Company with financial flexibility and a significant capital base to fund future growth.

The Company adopted a Dividend Reinvestment Plan ("DRIP") in May 2005 enabling Canadian resident shareholders who hold at least 500 common shares to reinvest cash dividends in additional common shares to be purchased through our transfer agent directly from First Capital Realty without charge. Shareholders who elect to participate in the DRIP will reinvest in additional common shares at a discount of 2% to the average trading price of the common shares on the Toronto Stock Exchange for the five consecutive trading days preceding the dividend payment date.

For the Q2 2005 dividend paid on July 7, 2005, the Company issued 684,917 common shares at a net price of \$20.11 to the DRIP participants.

The Company announced subsequent to quarter end, that on September 30, 2005 it will redeem all of its outstanding 7.00% convertible unsecured subordinated debentures (FCR DB.C.) together with accrued and unpaid interest, by the issuance of common shares. The number of common shares to be issued per \$100 amount payable will be calculated by dividing the dollar amount payable by an amount equal to 95% of the weighted average trading price of the common shares of the Company on the Toronto Stock Exchange calculated for the 20 consecutive trading days ending on September 23, 2005.

## REPORT TO SHAREHOLDERS *continued*

### **Outlook**

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First Capital Realty continues to work towards 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 its business, and management believes the Company is well positioned to continue to deliver increased value to investors over the long term. Focused acquisitions, 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.

Development and redevelopment 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 rental income to ensure that among other things, 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 per diluted share. See page 8 for further information.

First Capital Realty's 2005 diluted FFO per share guidance is being forecast at \$1.45 to \$1.49 per diluted share, taking into consideration a U.S. exchange rate at \$1.22 Canadian, with 2005 acquisition of over \$300 million, and before the impact of the 7.0% convertible unsecured subordinated debenture redemption.

## REPORT TO SHAREHOLDERS *continued*

### Quarterly Financial Information<sup>(1)</sup>

(thousands of dollars)	Total Revenue	Net Income	Earnings Per Share	
			Basic	Diluted
Q3 2003	\$ 39,413	\$ 5,264	\$ 0.19	\$ 0.18
Q4 2003	\$ 44,173	\$ 3,993	\$ 0.13	\$ 0.12
Q1 2004	\$ 49,485	\$ 2,938	\$ 0.08	\$ 0.08
Q2 2004	\$ 54,072	\$ 3,534	\$ 0.08	\$ 0.08
Q3 2004	\$ 56,480	\$ 5,385	\$ 0.17	\$ 0.13
Q4 2004	\$ 61,465	\$ 6,030	\$ 0.12	\$ 0.12
Q1 2005	\$ 61,061	\$ 6,351	\$ 0.27	\$ 0.10
Q2 2005	\$ 64,648	\$ 6,479	\$ 0.10	\$ 0.10

<sup>(1)</sup> 2004 and 2003 have been restated for the change in accounting policy regarding convertible debentures.

# CONSOLIDATED BALANCE SHEETS

(unaudited)	June 30	December 31
(thousands of dollars)	2005	2004
		(Restated - note 2)
<b>ASSETS</b>		
Real Estate Investments		
Shopping centres (note 3)	\$ 1,735,915	\$ 1,489,250
Land and shopping centres under development	77,847	74,957
Deferred costs	44,245	31,884
Intangible assets	17,637	13,508
	<b>1,875,644</b>	<b>1,609,599</b>
Investment in Equity One, Inc.	217,152	203,988
Loans, mortgages and other real estate assets	30,946	18,130
	<b>2,123,742</b>	<b>1,831,717</b>
Other assets	33,394	26,033
Amounts receivable	17,280	14,276
Cash and cash equivalents	17,826	4,883
Future income tax assets	21,834	16,688
	<b>\$ 2,214,076</b>	<b>\$ 1,893,597</b>
<b>LIABILITIES</b>		
Mortgages and credit facilities	\$ 1,167,915	\$ 1,002,965
Accounts payable and other liabilities	86,086	72,048
Unsecured debentures (note 4)	100,000	—
Convertible debentures (note 5)	97,081	247,736
Future income tax liabilities	30,280	22,355
	<b>1,481,362</b>	<b>1,345,104</b>
SHAREHOLDERS' EQUITY (note 6)	732,714	548,493
	<b>\$ 2,214,076</b>	<b>\$ 1,893,597</b>

See accompanying notes to the consolidated interim financial statements

# CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited) (thousands of dollars, except per share amounts)	Three months ended		Six months ended	
	June 30 2005	June 30 2004	June 30 2005	June 30 2004
		(Restated - note 2)		(Restated - note 2)
<b>REVENUE</b>				
Property rental revenue	\$ 63,403	\$ 52,613	\$ 123,669	\$ 101,067
Interest and other income	1,245	1,459	2,040	2,490
	64,648	54,072	125,709	103,557
<b>EXPENSES</b>				
Property operating costs	23,769	20,701	47,251	39,608
Interest expense (note 7)	19,371	20,194	40,095	39,897
Amortization	12,258	8,411	23,241	16,405
Corporate expenses	3,311	2,697	6,286	5,183
	58,709	52,003	116,873	101,093
Equity income from Equity One, Inc.	5,101	4,428	9,655	9,124
Gain on redemption of convertible debentures	—	—	841	—
Income before income and other taxes	11,040	6,497	19,332	11,588
Income and other taxes:				
Current	1,284	1,114	2,508	2,295
Future	3,277	1,849	3,994	2,821
	4,561	2,963	6,502	5,116
Net income	\$ 6,479	\$ 3,534	\$ 12,830	\$ 6,472
Net earnings per common share (note 8)				
Basic	\$ 0.10	\$ 0.08	\$ 0.36	\$ 0.16
Diluted	\$ 0.10	\$ 0.08	\$ 0.20	\$ 0.16

See accompanying notes to the consolidated interim financial statements

# CONSOLIDATED STATEMENTS OF DEFICIT

(unaudited) (thousands of dollars)	Six months ended	
	June 30 2005	June 30 2004
		(Restated - note 2)
Deficit, beginning of period	\$ (133,163)	\$ (96,279)
Net income for the period	12,830	6,472
Dividends	(46,825)	(24,502)
Deficit, end of period	\$ (167,158)	\$ (114,309)

See accompanying notes to the consolidated interim financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (thousands of dollars)	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2005	2004	2005	2004
		(Restated - note 2)		(Restated - note 2)
<b>CASH FLOW PROVIDED BY (USED IN):</b>				
<b>OPERATING ACTIVITIES</b>				
Net income	\$ 6,479	\$ 3,534	\$ 12,830	\$ 6,472
Items not affecting cash				
Amortization	11,836	8,087	22,270	15,772
Amortization of deferred financing fees	422	324	971	633
Amortization of above and below-market leases	(187)	(125)	(474)	(145)
Amortization of deferred rent receivable	(984)	(911)	(2,054)	(1,668)
Gain on redemption of convertible debentures	—	—	(841)	—
Non-cash compensation expense	345	327	716	418
Convertible debenture interest in excess of coupon	242	1,123	1,181	2,240
Convertible debenture interest paid in common shares	—	5,862	6,390	9,362
Equity income from Equity One, Inc.	(5,101)	(4,428)	(9,655)	(9,124)
Future income taxes	3,277	1,849	3,994	2,821
Deferred leasing costs	(4,270)	(4,313)	(7,271)	(4,842)
Dividends received from Equity One, Inc.	4,662	4,663	9,194	9,282
Net change in accrued dividend payable	(8,384)	12,532	3,710	3,133
Net change in non-cash operating items	9,505	(13,567)	(8,425)	(16,777)
Cash provided by operating activities	17,842	14,957	32,536	17,577
<b>INVESTING ACTIVITIES</b>				
Acquisition of shopping centres	(118,918)	(28,431)	(165,457)	(91,520)
Acquisition of land for development	(7,971)	(19,584)	(11,016)	(23,944)
Acquisition of deferred costs	(5,905)	(21,462)	(9,792)	(23,303)
Acquisition of intangible assets and liabilities – net	(771)	(4,332)	2,292	(2,084)
Expenditures on shopping centres	(2,386)	(7,774)	(7,162)	(10,244)
Expenditures on land and shopping centres under development	(9,362)	(6,205)	(21,692)	(18,721)
Investment in common shares of Equity One, Inc.	(4,202)	(2,716)	(8,734)	(2,716)
Repayment from (advances to) development partners	1,599	533	2,584	(566)
Investment in marketable real estate securities	(3,886)	(3,981)	(17,855)	(4,233)
Proceeds on disposition of marketable real estate securities	1,968	1,077	2,831	1,077
Cash used in investing activities	(149,834)	(92,875)	(234,001)	(176,254)
<b>FINANCING ACTIVITIES</b>				
Proceeds of mortgage financings and credit facilities	107,643	51,698	180,066	86,756
Repayments of mortgages payable and credit facilities	(30,663)	(4,467)	(78,228)	(12,533)
Payment of financing fees	(1,299)	(1,455)	(2,111)	(1,795)
Issuance of common shares	1,982	24,804	58,358	108,008
Issuance of unsecured debentures, net of issue costs	99,183	—	99,183	—
Payment of dividends	(27,492)	—	(42,890)	(21,355)
Cash provided by financing activities	149,354	70,580	214,378	159,081
Effect of currency rate movement on cash balances	15	26	30	97
<b>(Decrease) increase in cash and cash equivalents</b>	<b>17,377</b>	<b>(7,312)</b>	<b>12,943</b>	<b>501</b>
Cash and cash equivalents, beginning of period	449	7,892	4,883	79
<b>Cash and cash equivalents, end of period</b>	<b>\$ 17,826</b>	<b>\$ 580</b>	<b>\$ 17,826</b>	<b>\$ 580</b>
<b>SUPPLEMENTARY INFORMATION</b>				
Cash income taxes paid	\$ 1,425	\$ 1,019	\$ 1,968	\$ 1,421
Cash interest paid (note 7)	\$ 17,782	\$ 14,220	\$ 33,968	\$ 30,208

See accompanying notes to the consolidated interim financial statements

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 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 Canadian Institute of Chartered Accountants’ (“CICA”) 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 and six month periods ended June 30, 2004 was as follows:

(thousands of dollars)	Three months Increase (Decrease)	Six months Increase (Decrease)
Interest, accretion and amortization	\$ 7,262	\$ 14,518
Future income tax expense	(2,304)	(4,606)
Net income	(4,958)	(9,912)

## 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 was 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)	June 30 2005	December 31 2004
Land	\$ 379,349	\$ 312,921
Buildings and improvements	1,438,400	1,241,895
	1,817,749	1,554,816
Accumulated amortization	(81,834)	(65,566)
	<u>\$ 1,735,915</u>	<u>\$ 1,489,250</u>

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.

During the second quarter of 2005, eleven properties totalling 0.9 million square feet were acquired for \$158.7 million. The properties were financed with \$79.8 million in cash, \$33.0 million in assumed mortgages, and \$45.9 million in new mortgages.

The Company's interests in two leasehold properties (2004 – two) have a net book value of \$29.3 million (2004 – \$21.7 million), net of accumulated amortization of \$2.6 million (2004 – \$2.2 million).

### 4 Unsecured Debentures

On June 21, 2005 the Company issued \$100 million of 5.08% senior unsecured debentures, maturing on June 21, 2012. Interest is payable semi-annually.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

### 5 Convertible Debentures

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)		June 30, 2005			December 31, 2004		
Interest Rate					(Restated - note 2)		
Coupon	Implicit	Principal	Liability	Equity	Principal	Liability	Equity
7.00%	8.25%	\$ 99,999	\$ 97,081	\$ 8,238	\$ 99,999	\$ 96,595	\$ 8,238
7.25%	9.6%	—	—	—	161,702	151,141	8,279
		\$ 99,999	\$ 97,081	\$ 8,238	\$ 261,701	\$ 247,736	\$ 16,517

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. There were no principal or interest payments on convertible debentures during the second quarter of 2005.

### 6 Shareholders' Equity

(thousands of dollars)	June 30 2005	December 31 2004
		(Restated - note 2)
Share capital (a)	\$ 889,026	\$ 673,660
Equity component of convertible debentures (note 5)	8,238	16,517
Warrants (c)	608	711
Options and deferred share units (d)	2,147	1,273
Cumulative currency translation adjustment	(11,422)	(13,347)
Contributed surplus (note 5)	11,275	2,842
Deficit	(167,158)	(133,163)
	\$ 732,714	\$ 548,493

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

**6**

Shareholders'

Equity

continued

**(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 5)	8,411,386	149,891
Conversion of 7.25% convertible debentures (note 5)	1,434	35
Payment of interest on convertible debentures (note 5)	338,225	6,390
Exercise of warrants (c)	129,433	1,631
Exercise of options (d)	466,645	6,640
Issue costs	—	(1,196)
<b>Issued and outstanding at June 30, 2005</b>	<b>63,706,706</b>	<b>\$ 889,026</b>

**(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 June 30, 2005, there were 797,972 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.

During the second quarter of 2005, 129,433 (2004 - 932,930) share purchase warrants were exercised at \$11.80 per share resulting in net proceeds of \$1.5 million (2004 - \$11.0 million). The equity component of the warrants exercised, \$0.1 million (2004 - \$2.7 million), was transferred to share capital.

**(d) Stock Options**

The Company is authorized to grant up to 3,625,000 (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 June 30, 2005, 2,045,000 (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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

6 Shareholders' Equity continued	Six months ended		Six months ended	
	June 30		June 30	
	2005		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	275,000	\$ 16.91
Exercised	(466,645)	\$ 14.02	(94,250)	\$ 13.06
Cancelled	(12,500)	\$ 15.65	(5,000)	\$ 15.65
Outstanding, end of period	793,405	\$ 14.47	1,493,750	\$ 14.09
Options vested at end of period	567,155	\$ 13.62	938,333	\$ 13.54
Weighted average remaining life (years)	7.6		7.5	

7 Interest (thousands of dollars)	Three months ended	
	June 30 2005	June 30 2004
		(Restated - note 2)
Mortgage and credit facility interest expense	\$ 17,240	\$ 12,470
Debenture interest expense	2,131	7,724
Interest expense	19,371	20,194
Less: convertible debenture interest paid in common shares	—	(5,862)
Change in accrued interest	(2,681)	—
Implicit interest rate in excess of coupon rate	(242)	(1,123)
Interest capitalized to land and shopping centres under development	1,044	988
Other	290	23
Cash interest paid	\$ 17,782	\$ 14,220

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

7 Interest	(thousands of dollars)	Six months ended	
		June 30 2005	June 30 2004
continued			(Restated - note 2)
	Mortgage and credit facility interest expense	\$ 32,385	\$ 24,455
	Debenture interest expense	7,710	15,442
	Interest expense	40,095	39,897
	Less: convertible debenture interest paid in common shares	(6,390)	(9,362)
	Change in accrued interest	(1,310)	—
	Implicit interest rate in excess of coupon rate	(1,181)	(2,240)
	Interest capitalized to land and shopping centres under development	2,253	1,899
	Other	501	14
	Cash interest paid	\$ 33,968	\$ 30,208

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

Per Share Calculations	(thousands of dollars, except per share amounts)	Three months ended	
		June 30 2005	June 30 2004
			(Restated - note 2)
	Basic and diluted net income available to common shareholders	\$ 6,479	\$ 3,534
	Denominator		
	Weighted average shares outstanding for basic per share amounts	63,777,207	42,283,087
	Warrants	358,091	876,977
	Options	192,623	206,336
	Denominator for diluted net income available to common shareholders	64,327,921	43,366,400
	Basic earnings per share	\$ 0.10	\$ 0.08
	Diluted earnings per share	\$ 0.10	\$ 0.08

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

8

Per Share  
Calculation

continued

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

	Six months ended	
	June 30 2005	June 30 2004
(thousands of dollars, except per share amounts)		(Restated - note 2)
Net income	\$ 12,830	\$ 6,472
Contributed surplus on redemption of convertible debentures	8,433	—
Basic net income available to common shareholders	\$ 21,263	\$ 6,472
Net income	\$ 12,830	\$ 6,472
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	\$ 12,780	\$ 6,472
Denominator		
Weighted average shares outstanding for basic		
per share amounts	58,949,273	39,881,548
7.25% convertible debentures	3,258,635	—
Warrants	366,198	1,052,672
Options	244,595	221,469
Denominator for diluted net income available to		
common shareholders	62,818,701	41,155,689
Basic earnings per share	\$ 0.36	\$ 0.16
Diluted earnings per share	\$ 0.20	\$ 0.16

The following securities were not included in the diluted per share calculation for the three and six months ended June 30, 2005 and 2004 as the effect would have been anti-dilutive:

	Exercise Price	Number of shares if converted or exercised	
		June 30 2005	June 30 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*

### 9 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, 2005 is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	\$ 63,403	\$ —	\$ 63,403
Property operating costs	23,769	—	23,769
Net operating income	39,634	—	39,634
Equity income from Equity One, Inc.	—	5,101	5,101
Interest and other income	1,245	—	1,245
Interest expense	17,537	1,834	19,371
Corporate expenses	3,276	35	3,311
Operating income before amortization	20,066	3,232	23,298
Amortization	12,227	31	12,258
Operating income	\$ 7,839	\$ 3,201	\$ 11,040

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

(thousands of dollars)	Canada	U.S.	Total
			(Restated - note 2)
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	18,938	1,256	20,194
Corporate expenses	2,411	286	2,697
Operating income before amortization	12,022	2,886	14,908
Amortization	8,374	37	8,411
Operating income	\$ 3,648	\$ 2,849	\$ 6,497

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

### 9 Segmented Information

continued

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 six months ended June 30, 2005 is summarized as follows:

(thousands of dollars)	Canada	U.S.	Total
Property rental revenue	\$ 123,669	\$ —	\$ 123,669
Property operating costs	47,251	—	47,251
Net operating income	76,418	—	76,418
Equity income from Equity One, Inc.	—	9,655	9,655
Interest and other income	2,040	—	2,040
Interest expense	36,929	3,166	40,095
Corporate expenses	5,944	342	6,286
Operating income before amortization	35,585	6,147	41,732
Amortization	23,176	65	23,241
Operating income	\$ 12,409	\$ 6,082	\$ 18,491

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

(thousands of dollars)	Canada	U.S.	Total
			(Restated - note 2)
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	37,467	2,430	39,897
Corporate expenses	4,834	349	5,183
Operating income before amortization	21,648	6,345	27,993
Amortization	16,338	67	16,405
Operating income	\$ 5,310	\$ 6,278	\$ 11,588

**10**  
Subsequent Events

- (a) Subsequent to quarter end, the Company acquired one shopping centre with 115,000 square feet for \$13.6 million, a land parcel adjacent to an existing property for \$1.7 million and a 32.9 acre property held for development for \$6.7 million.
  - (b) On July 7, 2005, the Company issued 684,917 common shares at a net price of \$20.11 to participants in the Dividend Reinvestment Plan.
  - (c) The Company announced subsequent to quarter end, that on September 30, 2005 it will redeem all of its outstanding 7.00% convertible unsecured subordinated debentures (FCR.DB.C.) together with accrued and unpaid interest, by the issuance of common shares. The number of common shares to be issued per \$100 amount payable will be calculated by dividing the dollar amount payable by an amount equal to 95% of the weighted average trading price of the common shares of the Company on the Toronto Stock Exchange calculated for the 20 consecutive trading days ending on September 23, 2005.
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**11**  
Comparative  
Amounts

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

# SHAREHOLDER INFORMATION

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Montreal, Quebec H3M 1L3  
Tel: 514.332.0031  
Fax: 514.332.5135

## Calgary Office

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McKenzie Towne Centre  
60R High Street S.E.  
Calgary, Alberta T2Z 3T8  
Tel: 403.257.6888  
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## U.S. Office

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1660 N.E. Miami Gardens Drive,  
Suite One  
North Miami Beach, FL 33179  
Tel: 305.944.7988  
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## Toronto Stock Exchange Listings

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Common Shares: FCR  
7% convertible debentures: FCR.DB.C  
Warrants: FCR.WT

## Transfer Agent

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Computershare Trust Company of Canada  
100 University Avenue, 11th Floor  
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Tel: 416.981.9633  
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## Legal Counsel

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Torys LLP  
Toronto, Ontario

Davies Ward Phillips & Vineberg LLP  
Montreal, Quebec

## Auditors

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Deloitte & Touche LLP  
Toronto, Ontario

## Officers

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Dori J. Segal  
President and CEO

Sylvie Lachance  
Executive Vice President

Karen H. Weaver  
Chief Financial Officer & Secretary

Brian Kozak  
Vice President, Western Canada

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