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FIRST CAPITAL REALTY INC.

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second quarter report  
june 30, 2002



## CORPORATE PROFILE

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**FIRST CAPITAL REALTY INC.** (TSX:FCR) is a growth-oriented, publicly traded real estate investment company that concentrates on the ownership of neighbourhood and community shopping centres in high-growth areas in Canada and the United States.

The Company's primary investment objective is the creation of value through long-term maximization of cash flow and capital appreciation from its growing shopping centre portfolio. In Canada, this objective is achieved by proactively managing the existing shopping centre portfolio, by seeking appropriate, opportunistic acquisitions and by undertaking selective development and redevelopment activities. In the United States, the Company is active through its holdings in Equity One, Inc., a publicly traded real estate investment trust (NYSE:EQY). First Capital Realty is managed by experienced real estate professionals who have a significant interest in creating long-term value for all shareholders. First Capital Realty's common shares, convertible debentures, debentures and warrants trade on The Toronto Stock Exchange.

In addition to its 11.1 million shares of Equity One, the Company currently owns interests in 63 Canadian properties, including two under development, containing approximately eight million square feet of gross leasable area. Including its investment in Equity One, the Company has interests in 152 properties totalling approximately 16.8 million square feet of gross leasable area.

## QUARTERLY FINANCIAL HIGHLIGHTS

	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<i>(\$000s, except per share data)</i>				
Funds from operations (“FFO”)	\$ 10,496	\$ 9,969	\$ 19,320	\$ 19,335
Diluted FFO per share	\$ 0.33	\$ 0.35	\$ 0.63	\$ 0.67
Unremitted Equity One FFO	\$ 1,098	\$ –	\$ 2,713	\$ –
Net rental income – Canada	\$ 18,663	\$ 15,392	\$ 35,335	\$ 29,524
Net rental income – U.S.	\$ –	\$ 9,666	\$ –	\$ 19,966
Equity income from Equity One	\$ 4,958	\$ –	\$ 11,087	\$ –
Net earnings	\$ 6,381	\$ 4,299	\$ 14,529	\$ 8,352
Diluted earnings per share	\$ 0.13	\$ 0.04	\$ 0.40	\$ 0.07

### Second quarter highlights

- Generated \$10.5 million in funds from operations, or \$0.33 per share (diluted). If unremitted Equity One funds from operations is included, FFO increased 16% over Q2 2001
- Acquired Gazit’s shopping centre business in Quebec for \$32 million, net of mortgages payable
- Issued 12.3 million share purchase warrants by way of a rights offering, exercisable at \$11.80 a share
- For the first time, paid interest due on 7.25% Series D convertible debentures by issuing common shares in lieu of cash (412,609 common shares issued to satisfy \$5 million interest obligation)
- Announced intention to pay interest on 7.0% Series C convertible debentures (FCR.DB.C) by way of common shares
- Received \$4.6 million in Equity One (NYSE:EQY) dividends
- Paid a second quarter dividend of \$0.27 per common share

# REPORT TO SHAREHOLDERS

## (INCLUDING MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS)

We are pleased with our half-year results. If we take into account the unremitted funds from operations of Equity One, to recognize our 33% equity interest in the U.S. REIT and to better compare current results to the prior year period, funds from operations would increase to \$22.0 million, up 14% from \$19.3 million in the first half of fiscal 2001.

This quarter, we undertook some initiatives to increase our equity base, as part of a long-term strategy to strengthen the balance sheet and improve the liquidity of our shares. We successfully completed a warrants issue to our shareholders and we made our first interest payment due on one of our convertible debentures series by way of common shares in lieu of cash. These initiatives resulted in an improved leverage ratio.

We have also announced that we will pay a third quarter dividend of \$0.27 per common share on Monday, September 30, 2002 to shareholders of record on Thursday, September 12, 2002.

### OPERATIONS REVIEW

#### Acquisitions

On May 16, 2002, we completed the acquisition (effective April 1, 2002) of our largest shareholder's shopping centre business in Quebec for \$31.65 million. The portfolio consists of six neighbourhood and community centres, and two freestanding retail buildings, with approximately 800,000 square feet of gross leasable area. These properties are all located in the Greater Montreal area. On seven of the eight properties, mortgages payable total \$22.9 million, with a weighted average interest rate of 7.7%. We expect these properties to add approximately \$5.5 million to net rental income on an annualized basis by the end of the year.

We continue to work towards creating long-term value in our growing portfolio of shopping centres through our focused acquisition strategy. In addition to further strengthening our presence in Quebec, this acquisition and the Ivanhoe acquisition completed in Q1, provide us with a better-diversified tenant base and are financially and operationally accretive. As a result of these acquisitions,

we have a better balance among our three main markets. Quebec and Alberta combined now represent approximately 47% of our net rental income and Ontario represents 49%.

The 15 new properties acquired in the first half of 2002 are expected to add \$12.5 million to net rental income on an annualized basis.

During the quarter, we acquired, with our joint venture partner, Rencor Developments Inc., a 27.4 acre site in north-west Calgary, Alberta, for a total purchase price of \$8.3 million. Leases are currently being finalized with national tenants including a national supermarket.

#### **Redevelopment and Renovation Activities**

A new Future Shop building in La Porte de Gatineau, Quebec, a Pier One Imports freestanding building in Montreal, Quebec, and a freestanding LCBO building in Fairview Mall, St. Catharines, Ontario, have all been completed. Redevelopment continues in Northgate Centre in Edmonton, Alberta, Place Cite des Jeunes in Hull, Quebec, Galeries Brien in Repentigny, Quebec, Harwood Plaza in Ajax, Ontario, and the Parkway Centre in Peterborough, Ontario.

Our developments in Brampton, Ontario and Lachenaie, Quebec continue to be under construction and on schedule, with an expected completion by mid-2003. In addition, we plan to complete renovations on five additional centres this year.

We expect to spend on these development, redevelopment and renovation activities about \$25 million during the remainder of the year.

Subsequent to quarter end, we acquired Westney Heights Plaza, a 148,000 square foot shopping centre, on the corner of Westney Rd. and Hwy #2 in Ajax, Ontario for a total purchase price of \$21 million including closing costs. Leases have been entered into with a national supermarket and a national drug store, both of which are expected to open this year. The rest of the centre will be renovated this year as well.

## **FINANCIAL REVIEW**

### **Three months ended June 30, 2002**

Funds from operations for the three months ended June 30, 2002 totalled \$10.5 million or 66 cents per common share. On a diluted basis, funds from operations were 33 cents per common share in the second quarter of 2002. Under Canadian GAAP, the Company's share of Equity One's unremitted funds from operations,

which is \$1.1 million, is not included in funds from operations. If it were included, funds from operations would have been \$11.6 million, or 73 cents per share basic and 36 cents per share diluted. This compares to \$10.0 million or 65 cents basic and 35 cents diluted in the prior year's equivalent three-month period.

Canadian net rental income for the second quarter was \$18.7 million, compared to \$15.4 million in the prior year comparative period. The acquisition of seven shopping centres and two freestanding retail buildings in the period and the six shopping centres acquired in the first quarter of the year contributed \$3.0 million to net rental income; same property growth also contributed \$0.1 million in the current quarter. U.S. properties in the prior year period contributed \$9.7 million of income. No income from U.S. properties is included in the current year due to the Equity One transaction in September 2001, after which the Company began to account for its U.S. interests on an equity basis.

Mortgage and credit facilities interest costs were \$2.8 million lower in the second quarter of 2002 than in the second quarter of 2001. The elimination of interest expense on the U.S. properties due to the Equity One transaction resulted in a net decrease of \$4.9 million. Partially offsetting this was a \$2.1 million increase resulting from interest expense on properties acquired.

In addition, interest and other income was \$1.0 million lower than in the prior year, primarily due to the Equity One transaction.

Net earnings increased 48% to \$6.4 million, or 13 cents per share basic and diluted, compared to \$4.3 million, or 4 cents per share, basic and diluted, in the prior year period. In addition to the factors noted above, net earnings were affected by a \$2.0 million reduction of amortization due to the sale of our U.S. portfolio to Equity One.

We received a second quarter dividend payment from Equity One of \$4.6 million, which currently pays a quarterly dividend of US\$0.27 per share. Due to our participation in Equity One's dividend reinvestment plan, our holding in Equity One increased to 11.1 million common shares.

On April 15, 2002, we issued 12,301,619 common share purchase warrants entitling holders to acquire common shares at a price of \$11.80 per share. The warrants are exercisable during a three-month period commencing on June 1 and ending on or about August 31 in each year from 2002 to 2008, on and subject to certain terms and conditions, and may be exercisable in certain other

limited circumstances. For 2002, the exercise period commenced, subject to the terms and conditions outlined in the prospectus, on June 1 and will end on September 3, 2002. If all the warrants are exercised we will raise \$145 million, without incurring any significant transaction costs.

Additionally, with a view to strengthening the balance sheet over time, we satisfied the interest due on June 30, 2002 on the Series D Debentures by way of common shares in lieu of cash. A total of 412,609 common shares were issued to Series D Debenture holders based on a share price of \$11.76, being 95% of the weighted average trading price of the common shares over the 20 consecutive trading days ending on June 24, 2002.

Based on the success of our initiative with the Series D Debentures, on June 25, 2002, we announced our intention to also pay the interest due on August 31, 2002 to holders of our 7% convertible unsecured subordinated debentures due February 28, 2008, ("Series C Debentures") by way of common shares in lieu of cash.

As with the Series D Debentures, if the 20-day weighted average trading price of the common shares is less than \$12.00, we will pay the interest owing on the Series C Debentures in cash.

#### **Six months ended June 30, 2002**

Funds from operations for the six months ended June 30, 2002 totalled \$19.3 million or \$1.23 per common share. On a diluted basis, funds from operations were 63 cents per common share in the first half of 2002. Under Canadian GAAP, the Company's share of Equity One's unremitted funds from operations, which is \$2.7 million, is not included in funds from operations. If included, funds from operations would have been \$22.0 million or \$1.41 per share basic and 71 cents diluted. This compares to \$19.3 million or \$1.26 per share basic and 67 cents diluted in the prior year's equivalent six-month period.

Canadian net rental income for the six months ended June 30, 2002 was \$35.3 million, compared to \$29.5 million in the prior year comparative period. Acquisitions contributed \$5.0 million to net rental income; same property growth also contributed \$0.5 million in the current period. U.S. properties in the prior year period contributed \$20.0 million of rental income. No income from U.S. properties is included in the current year. The Company accounts for its U.S. interests on an equity basis since the completion of the Equity One transaction in September 2001.

Mortgage and credit facilities interest costs were \$6.2 million lower in the first half of 2002 than in 2001. The elimination of interest expense on the U.S. properties due to the Equity One transaction resulted in a net decrease of \$9.8 million. Partially offsetting this was a \$3.6 million increase resulting from interest expense on properties acquired.

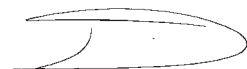
Net earnings were \$14.5 million, or 41 cents per share basic and 40 cents diluted, compared to \$8.4 million, or 7 cents per share, basic and diluted, in the prior year period. In addition to the factors noted above, net earnings were affected by a dilution gain on the investment in Equity One, net of tax, of \$2.1 million, resulting from the issuance of Equity One shares at values in excess of the Company's carrying cost of these shares.

#### OUTLOOK

Looking ahead, management believes that our run rate for funds from operations, based on our current portfolio and properties under redevelopment, will be approximately \$43.5 million on an annualized basis by the end of 2002.

We continue to see opportunities to build the quality of our portfolio, while steadily strengthening the balance sheet. We will continue to increase FFO through active management of our portfolio, executing on our focused acquisition strategy and through selective development and redevelopment activities, which remain an important part of our business.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dori J. Segal', written in a cursive style.

Dori J. Segal  
President & C.E.O.  
August 15, 2002

## CONSOLIDATED BALANCE SHEETS

<i>(in thousands of dollars)</i>	June 30, 2002 (unaudited)	December 31, 2001
<b>ASSETS</b>		
Shopping centres (note 3)	\$ 791,214	\$ 661,476
Land and shopping centres under development and redevelopment (note 4)	52,568	39,005
Investment in Equity One, Inc. (note 5)	199,767	190,774
Cash and cash equivalents	1,554	43,951
Amounts receivable	18,087	17,861
Other assets	18,770	16,124
Future income tax assets	14,417	19,348
	<b>\$ 1,096,377</b>	<b>\$ 988,539</b>
<b>LIABILITIES</b>		
Mortgages payable and credit facilities (note 6)	\$ 537,682	\$ 460,356
Accounts payable and accrued liabilities	28,495	31,350
Convertible debentures payable (note 7)	45,427	49,396
Debentures payable	37,432	37,866
	649,036	578,968
<b>SHAREHOLDERS' EQUITY</b> (note 8)	447,341	409,571
	<b>\$ 1,096,377</b>	<b>\$ 988,539</b>

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(unaudited)</i>	Three months ended		Six months ended	
<i>(in thousands of dollars except per share amounts)</i>	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Gross rental income	\$ 30,490	\$ 38,077	\$ 57,777	\$ 77,109
Property operating costs	11,827	13,019	22,442	27,619
Rental income	18,663	25,058	35,335	49,490
Equity income from Equity One, Inc.	4,958	-	11,087	-
Interest and other income	547	1,576	1,539	3,278
	24,168	26,634	47,961	52,768
Interest expense:				
Mortgages and credit facilities	8,548	11,339	16,536	22,702
Debentures	1,867	2,046	3,732	4,091
	10,415	13,385	20,268	26,793
Corporate expenses	1,548	1,704	3,112	3,375
Operating income before amortization	12,205	11,545	24,581	22,600
Amortization	2,452	3,819	4,785	7,388
Operating income	9,753	7,726	19,796	15,212
Dilution gain on investment in Equity One, Inc. (note 5)	-	-	3,290	-
Earnings before income and other taxes	9,753	7,726	23,086	15,212
Income and other taxes:				
Current	1,123	695	2,433	1,630
Future	2,249	2,732	6,124	5,230
	3,372	3,427	8,557	6,860
<b>Net earnings for the period</b>	<b>\$ 6,381</b>	<b>\$ 4,299</b>	<b>\$ 14,529</b>	<b>\$ 8,352</b>
Net earnings per common share (note 9)				
Basic	\$ 0.13	\$ 0.04	\$ 0.41	\$ 0.07
Diluted	\$ 0.13	\$ 0.04	\$ 0.40	\$ 0.07

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF DEFICIT

<i>(unaudited)</i> <i>(in thousands of dollars)</i>	Six months ended	
	June 30, 2002	June 30, 2001
Deficit, beginning of the period	\$ (69,324)	\$ (70,921)
Net earnings for the period	14,529	8,352
Interest and accretion on equity component of convertible debentures (net of tax of \$5,112; 2001 - \$4,729)	(8,128)	(7,262)
Issuance of rights to acquire warrants (note 8)	(10,210)	-
Dividends	(8,466)	(7,381)
Deficit, end of the period	\$ (81,599)	\$ (77,212)

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF FUNDS FROM OPERATIONS

<i>(unaudited)</i> <i>(in thousands of dollars)</i> <i>except per share amounts</i>	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Net earnings for the period	\$ 6,381	\$ 4,299	\$ 14,529	\$ 8,352
Add (deduct):				
Amortization	2,208	3,073	4,312	6,286
Loss (gain) on disposition of marketable securities	38	(135)	(430)	(533)
Equity income from Equity One, Inc.	(4,958)	-	(11,087)	-
Dividend income from Equity One, Inc.	4,578	-	9,162	-
Dilution gain on investment in Equity One, Inc.	-	-	(3,290)	-
Future income taxes	2,249	2,732	6,124	5,230
<b>Funds from operations</b>	<b>\$ 10,496</b>	<b>\$ 9,969</b>	<b>\$ 19,320</b>	<b>\$ 19,335</b>
Funds from operations per common share (note 9)				
Basic	\$ 0.66	\$ 0.65	\$ 1.23	\$ 1.26
Diluted	\$ 0.33	\$ 0.35	\$ 0.63	\$ 0.67

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(unaudited)</i> <i>(in thousands of dollars)</i>	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<b>OPERATING ACTIVITIES</b>				
Funds from operations	\$ 10,496	\$ 9,969	\$ 19,320	\$ 19,335
Net change in non-cash operating items	(1,009)	198	(5,152)	(2,875)
Cash provided by operating activities	9,487	10,167	14,168	16,460
<b>INVESTING ACTIVITIES</b>				
Acquisition of shopping centres	(8,000)	–	(65,587)	(40,903)
Expansion and redevelopment of shopping centres	(10,791)	(7,332)	(15,014)	(14,869)
Proceeds on disposition of land and shopping centres	–	1,889	–	3,076
Acquisition and development of land	(7,166)	(2,080)	(10,297)	(6,794)
Purchase of common shares of Equity One, Inc.	(4,578)	–	(13,209)	–
Acquisition of First Capital Inc. (note 2)	1,657	–	1,657	–
Repayments from (advances to) development partners	(574)	1,771	(1,603)	1,771
Investment in marketable securities	(3,252)	–	(4,534)	–
Proceeds on disposition of marketable securities	1,085	1,153	4,087	13,260
Cash used in investing activities	(31,619)	(4,599)	(104,500)	(44,459)
<b>FINANCING ACTIVITIES</b>				
Proceeds of mortgage financings and credit facilities	19,548	29,868	64,271	87,054
Principal repayments of mortgages payable	(3,154)	(32,595)	(5,427)	(50,314)
Issuance of convertible debentures (note 2)	5,000	–	5,000	–
Debentures purchased and cancelled	(323)	(1,811)	(434)	(3,298)
Payments on convertible debentures, net of interest expensed	(1,309)	(3,704)	(6,856)	(7,267)
Dividends	(4,314)	(3,691)	(8,466)	(7,381)
Cash provided by (used in) financing activities	15,448	(11,933)	48,088	18,794
Effect of currency rate movement on cash balances	(55)	(511)	(153)	125
<b>Decrease in cash and cash equivalents</b>	<b>(6,739)</b>	<b>(6,876)</b>	<b>(42,397)</b>	<b>(9,080)</b>
Cash and cash equivalents, beginning of the period	8,293	31,399	43,951	33,604
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 1,554</b>	<b>\$ 24,523</b>	<b>\$ 1,554</b>	<b>\$ 24,524</b>
<b>SUPPLEMENTARY INFORMATION</b>				
Cash income taxes paid	\$ 630	\$ 327	\$ 1,145	\$ 1,034
Cash interest paid	\$ 12,047	\$ 19,308	\$ 27,626	\$ 38,944

See accompanying notes to the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002 (UNAUDITED)

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## 1. CHANGE IN ACCOUNTING POLICY

The accounting policies and methods of application for these interim consolidated financial statements are unchanged from those described in note 1 of the Company's December 31, 2001 annual consolidated financial statements except as described below. These interim consolidated financial statements should be read in conjunction with the December 31, 2001 annual consolidated financial statements.

The Company has a stock option plan as described in note 8. Effective January 1, 2002, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to stock-based compensation. The new standard requires stock-based payments and direct awards made to non-employees and direct awards, stock appreciation rights and similar awards to employees that are settled in cash or equity instruments to be determined using a fair value based method.

In accordance with the new standard, the Company discloses net earnings (and earnings per share) on a pro-forma basis as if the fair value based accounting method had been applied to its stock-based compensation for awards granted after January 1, 2002.

During the six months ended June 30, 2002, the Company granted 774,500 options which have an approximate fair value of \$0.5 million, of which \$127,000 would be the pro-forma cost for the six months ended June 30, 2002, (three months ended June 30, 2002 - \$64,000) in the determination of pro-forma net earnings of \$14.402 million (three months ended June 30, 2002 - \$6.317 million). Pro-forma basic and diluted net earnings per share for the six months ended June 30, 2002 would be \$0.40 and \$0.39, respectively (three months ended June 30, 2002 - \$0.12 and \$0.12).

## 2. FIRST CAPITAL INC. TRANSACTION

Effective April 1, 2002, the Company purchased from its largest shareholder, Gazit 1997 Inc. ("Gazit"), all of the issued and outstanding common shares of First Capital Inc. ("FCI"). The Company received a valuation of FCI and an independent opinion as to the fairness, from a financial point of view, of the consideration paid. The acquisition was accounted for using the purchase method. FCI is a private company carrying on business primarily in Quebec and owns a portfolio comprising six neighbourhood and community shopping centres and two freestanding retail buildings, with approximately 0.8 million square feet of gross leasable area. Mortgages payable secured by

seven of the eight properties totalled \$22.9 million, with a weighted average interest rate of 7.7%. The aggregate purchase price of \$31.65 million was satisfied through the issuance of 601,630 common shares of the Company (at \$12.30 a share) and \$28.16 million in principal amount of the Company's 7.25% convertible debentures. The amount of 7.25% convertible debentures was calculated based on a price of \$84.34 per \$100 principal amount. In addition, in connection with post-closing funding requirements of FCI, the Company required Gazit 1997 Inc. to provide additional cash of \$5 million in return for the issuance of an additional \$5.73 million of 7.25% convertible debentures based on a price of \$84.34 per \$100 principal amount plus accrued interest.

The consideration given and received on the acquisition of First Capital Inc., expressed in thousands of dollars, are as follows:

First Capital Realty Inc. common shares	\$ 7,400
First Capital Realty Inc. 7.25% convertible debentures	23,747
7.25% convertible debenture interest accrued	503
<u>Consideration given</u>	<u>\$ 31,650</u>
Shopping centres	\$ 54,763
Land and shopping centres under development and redevelopment	1,850
Working capital, including cash of \$1,657	1,607
Mortgages payable	(22,872)
Future tax liability	(3,698)
<u>Consideration received</u>	<u>\$ 31,650</u>

### 3. SHOPPING CENTRES

Shopping centres, expressed in thousands of dollars, are as follows:

	June 30, 2002	December 31, 2001
Land	\$ 137,310	\$ 111,420
Buildings and improvements	671,880	563,818
Deferred leasing costs	11,150	11,628
	820,340	686,866
Accumulated amortization	(29,126)	(25,390)
	<u>\$ 791,214</u>	<u>\$ 661,476</u>

On January 31, 2002, the Company acquired six shopping centres in the Greater Montreal area, totalling 0.8 million square feet, for approximately \$58 million. The acquisition was satisfied by ten-year mortgage debt secured against four of the six centres totalling approximately \$27.4 million at 7.07%, with the balance paid in cash.

Effective April 1, 2002, the Company acquired six shopping centres and two freestanding retail buildings located in the Greater Montreal area, totalling 0.8 million square feet through its acquisition of FCI (note 2).

On May 30, 2002, the Company acquired Carrefour St.-Hubert, a property in St. Hubert, Quebec, for cash of \$8.0 million.

In August 2002, the Company acquired Westney Heights Plaza, a property in Ajax, Ontario for a total purchase price of \$21 million including closing costs.

#### 4. LAND AND SHOPPING CENTRES UNDER DEVELOPMENT AND REDEVELOPMENT

Land and shopping centres under development and redevelopment, expressed in thousands of dollars, are as follows:

	June 30, 2002	December 31, 2001
Acquisition costs	\$ 23,645	\$ 18,669
Development and redevelopment costs	25,887	17,442
Interest costs	3,036	2,894
	<u>\$ 52,568</u>	<u>\$ 39,005</u>

In March 2002, two projects under development with costs totalling \$4.0 million were completed and transferred to shopping centres. In June 2002, one project under development with costs totalling \$0.5 million was completed and transferred to shopping centres.

In April 2002, two sites in Hull, Quebec, were purchased for cash of \$2.2 million. In May 2002, the Company acquired a 60% interest in a site in Calgary, Alberta for \$1.3 million in cash and a \$3.7 million vendor take-back mortgage.

Interest capitalized on development and redevelopment properties during the three and six months ended June 30, 2002 totalled \$0.3 million and \$0.4 million, respectively (2001 - \$0.7 million and \$1.7 million).

#### 5. INVESTMENT IN EQUITY ONE, INC.

The Company's investment in Equity One, Inc. ("Equity One"), expressed in thousands of dollars, consists of the following:

Investment in Equity One, December 31, 2001	\$ 190,774
Equity income for the six months ended June 30, 2002	11,087
Less dividends received in 2002	(9,162)
Purchase of common shares of Equity One	13,209
Dilution gain	3,290
Cumulative currency effect	(9,431)
Investment in Equity One, June 30, 2002	<u>\$ 199,767</u>

During the six months ended June 30, 2002, in connection with a private placement and a public offering of Equity One's common shares and through participation in Equity One's dividend reinvestment plan, the Company's U.S. subsidiaries acquired an additional 630,286 common shares of Equity One at an average price of US\$13.26 per share.

During the six months ended June 30, 2002, as a result of Equity One's private placement, public offering, and dividend reinvestment plan noted above, Equity One's common shares outstanding increased from 28.6 million to 33.9 million, resulting in a reduction of the Company's ownership interest in Equity One from 36% at December 31, 2001 to 33% at June 30, 2002. As a result, the Company has recorded a dilution gain of \$3.29 million during the period.

The closing price on the NYSE of Equity One's common shares at June 30, 2002 was US\$14.00 (December 31, 2001- US\$13.74) per share. The book value per share of the Company's investment in Equity One at June 30, 2002 is US\$11.84 (December 31, 2001 - US\$11.41). At June 30, 2002, 33.9 million (December 31, 2001 - 28.6 million) shares of Equity One were outstanding, of which 11.1 million shares (December 31, 2001 - 10.5 million shares) were held by the Company.

The Company's share of Equity One's unremitted funds from operations using Canadian generally accepted accounting principles ("GAAP") and expressed in thousands of Canadian dollars, which has not been included in the Company's funds from operations, is as follows:

	Three months ended June 30, 2002	Six months ended June 30, 2002
Equity One's funds from operations, Canadian GAAP	\$ 17,304	\$ 34,423
Company's weighted average ownership percentage of Equity One	33%	35%
Company's share of Equity One's funds from operations	\$ 5,676	\$ 11,875
Less dividends received by the Company	(4,578)	(9,162)
Company's share of Equity One's unremitted funds from operations	\$ 1,098	\$ 2,713

## 6. MORTGAGES PAYABLE AND CREDIT FACILITIES

Mortgages payable and credit facilities, secured by shopping centres and the Equity One common shares, presented by geographic location and expressed in thousands of dollars, consist of the following:

	June 30, 2002	December 31, 2001
Canada	\$ 434,580	\$ 363,940
United States (US\$68,000; 2001 - US\$60,532)	103,102	96,416
	\$ 537,682	\$ 460,356

In January 2002 mortgages payable totalling \$27.4 million were obtained in respect of shopping centres acquired in the Greater Montreal area. The mortgages mature in 2012 and bear interest at a rate of 7.07%. In May 2002, mortgages payable totalling \$22.9 million were obtained in respect of the purchase of FCI shopping centres (note 2). The mortgages mature by 2011 and bear interest at an average of 7.7%.

At June 30, 2002, the Company had \$52 million of undrawn credit facilities available for acquisitions, development, and general corporate purposes.

## 7. CONVERTIBLE DEBENTURES PAYABLE

The components of the Company's convertible debentures, expressed in thousands of dollars, are classified as follows:

Series	June 30, 2002			December 31, 2001	
	Principal	Liability	Equity	Liability	Equity
8.5% convertible debentures	\$ 57,441	\$ 17,184	\$ 41,718	\$ 18,713	\$ 39,964
7.875% convertible debentures	97,522	28,243	71,808	30,683	68,980
7.0% convertible debentures	99,999	–	100,918	–	100,538
7.25% convertible debentures	133,882	–	128,883	–	100,231
	\$388,844	\$ 45,427	\$343,327	\$ 49,396	\$309,713

Effective April 1, 2002, the Company issued \$28.16 million in principal amount of 7.25% convertible debentures to Gazit as a result of the First Capital Inc. transaction (note 2). In addition, the Company issued an additional \$5.73 million in principal amount of 7.25% convertible debentures to Gazit on May 30, 2002 (note 2).

In accordance with the terms of the 7.25% convertible debentures, on June 30, 2002, 412,609 shares were issued to pay interest to holders of the Company's 7.25% convertible debentures. The number of common shares issued per \$100 principal amount of 7.25% convertible debentures was

calculated by dividing the dollar amount of interest 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 ended on June 24, 2002.

On June 25, 2002, the Company announced that it will pay the interest due on August 31, 2002 to holders of its 7% convertible debentures due February 28, 2008 (TSX:FCR.DB.C) by the issuance of common shares. The number of common shares to be issued per \$100 principal amount of 7% convertible debentures will be calculated by dividing the dollar amount of interest 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 August 26, 2002. If, however, the weighted average trading price per common share of the Company calculated for this 20 consecutive trading day period is less than \$12.00, the Company will pay the interest owing on the 7% convertible debentures on August 31, 2002 in cash. In addition, in any case, interest will be payable in cash to all holders of the 7% convertible debentures who are not resident in Canada. The 7% convertible debentures that are indirectly owned by Gazit, the Company's largest shareholder, are all held by Canadian entities.

## 8. SHAREHOLDERS' EQUITY

Shareholders' equity, expressed in thousands of dollars, consists of the following:

	June 30, 2002	December 31, 2001
Equity component of convertible debentures	\$ 343,327	\$ 309,713
Share capital	166,195	154,499
Warrants	11,444	2,000
Cumulative currency translation adjustment	7,974	12,683
Deficit	(81,599)	(69,324)
	<u>\$ 447,341</u>	<u>\$ 409,571</u>

On April 10, 2002, the Company completed a rights offering pursuant to which its common shareholders subscribed for 12,301,619 warrants to purchase common shares. A holder of rights was entitled to subscribe for one common share purchase warrant for each 1.25 rights held at a price of \$0.05 per warrant. As a result, \$10.2 million was charged to the deficit. A corresponding amount, net of issue costs, has been recorded under warrants in shareholders' equity. Each warrant entitles the holder to purchase one common share of the Company at a price of \$11.80 per share during a three-month exercise period commencing on June 1 and ending on August 31 in each year from 2002 to 2008, on and subject to certain terms and conditions, and may be exercisable in certain other limited circumstances. The maximum number of warrants available under the rights offering was subscribed by holders of common shares. In connection with the rights

offering, the conversion prices of the Company's outstanding convertible debentures, and the exercise prices of the Company's outstanding advisory warrants and options, in accordance with the terms of those instruments, were adjusted by a factor of .9667.

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

	Number of Common Shares	Stated Capital <i>(thousands of dollars)</i>
Issued and outstanding at December 31, 2001	15,377,024	\$ 154,499
Issued in connection with First Capital Inc. transaction (note 2)	601,630	7,400
Issued in connection with payment of interest on 7.25% convertible debentures (note 7)	412,609	4,852
Issue costs	–	(556)
<b>Issued and outstanding at June 30, 2002</b>	<b>16,391,263</b>	<b>\$ 166,195</b>

As at December 31, 2001, the Company had issued and outstanding, to its Property Manager's employees, officers, and directors, 480,000 stock options. In the six months ended June 30, 2002, 42,500 of these options were cancelled. The exercise price of the remaining 437,500 options is \$13.82. In addition, 774,500 options were issued to the Company's officers and directors at a current exercise price of \$12.42, which generally vest over three years and expire in 2012.

The cumulative currency translation adjustment represents the cumulative unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States. The change for the period reflects the impact of U.S. currency movements at June 30, 2002 relative to the exchange rate in effect as at December 31, 2001 on these net assets.

The rate of exchange in effect on June 30, 2002 was US\$1.00 = Cdn\$1.52 (December 31, 2001 - Cdn\$1.59). The average rate of exchange for the three months ended June 30, 2002 was US\$1.00 = Cdn\$1.55 (three months ended June 30, 2001 - Cdn\$1.54). The average rate of exchange for the six months ended June 30, 2002 was US\$1.00 = Cdn\$1.57 (six months ended June 30, 2001 - Cdn\$1.53).

## 9. PER SHARE CALCULATIONS

Basic per share information for the three-month and six-month periods ended June 30, 2002 is calculated based on a weighted average of 15,983,188 and 15,681,781 common shares outstanding, respectively, during the period (three months and six months ended June 30, 2001 - 15,376,986 common shares).

The determination of basic earnings per share for the three and six months ended June 30, 2002 reflects a reduction of \$4.3 million and \$8.1 million (June 30, 2001 - \$3.6 million and \$7.3 million) to reported net earnings, which represents interest and accretion on the equity component of convertible debentures, net of income taxes.

Diluted per share information for the three and six months ended June 30, 2002 is calculated based on a weighted average of 35,841,750 and 34,446,208 common shares (three and six months ended June 30, 2001 - 33,035,160 common shares), which reflects the conversion of the convertible debentures and share purchase warrants. The diluted per share information for the three and six months ended June 30, 2002 does not reflect the exercise of 1,000,000 outstanding advisory warrants exercisable at \$13.53 (2001 - 1,000,000 advisory warrants) or 1,212,000 issued options (2001 - 487,500 options) (note 8) as their conversion prices were higher than the average price of the Company's common shares during the period.

#### 10. 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, 2002, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	\$ 30,490	\$ -	\$ 30,490
Property operating costs	11,827	-	11,827
Rental income	18,663	-	18,663
Equity income from Equity One, Inc.	-	4,958	4,958
Interest and other income	501	46	547
	19,164	5,004	24,168
Interest expense:			
Mortgages and credit facilities	7,472	1,076	8,548
Debentures	1,867	-	1,867
	9,339	1,076	10,415
Corporate expenses	1,461	87	1,548
Operating income before amortization	8,364	3,841	12,205
Amortization	2,433	19	2,452
Operating income	\$ 5,931	\$ 3,822	\$ 9,753

Operating income by geographic segment for the three months ended June 30, 2001, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	\$ 23,722	\$ 14,355	\$ 38,077
Property operating costs	8,330	4,689	13,019
Rental income	15,392	9,666	25,058
Interest and other income	937	639	1,576
	16,329	10,305	26,634
Interest expense:			
Mortgages and credit facilities	6,393	4,946	11,339
Debentures	2,046	–	2,046
	8,439	4,946	13,385
Corporate expenses	1,294	410	1,704
Operating income before amortization	6,596	4,949	11,545
Amortization	1,844	1,975	3,819
Operating income	\$ 4,752	\$ 2,974	\$ 7,726

Operating income by geographic segment for the six months ended June 30, 2002, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	\$ 57,777	\$ –	\$ 57,777
Property operating costs	22,442	–	22,442
Rental income	35,335	–	35,335
Equity income from Equity One, Inc.	–	11,087	11,087
Interest and other income	1,149	390	1,539
	36,484	11,477	47,961
Interest expense:			
Mortgages and credit facilities	14,377	2,159	16,536
Debentures	3,732	–	3,732
	18,109	2,159	20,268
Corporate expenses	2,940	172	3,112
Operating income before amortization	15,435	9,146	24,581
Amortization	4,742	43	4,785
Operating income	\$ 10,693	\$ 9,103	\$ 19,796

Operating income by geographic segment for the six months ended June 30, 2001, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	\$ 47,530	\$ 29,579	\$ 77,109
Property operating costs	18,006	9,613	27,619
Rental income	29,524	19,966	49,490
Interest and other income	2,148	1,130	3,278
	31,672	21,096	52,768
Interest expense:			
Mortgages and credit facilities	12,867	9,835	22,702
Debentures	4,091	–	4,091
	16,958	9,835	26,793
Corporate expenses	2,578	797	3,375
Operating income before amortization	12,136	10,464	22,600
Amortization	3,826	3,562	7,388
Operating income	\$ 8,310	\$ 6,902	\$ 15,212

#### 11. COMPARATIVE AMOUNTS

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

## SHAREHOLDER INFORMATION

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Common shares: FCR  
7.5% debentures: FCR.DB  
8.5% convertible debentures: FCR.DB.A  
7.875% convertible debentures: FCR.DB.B  
7% convertible debentures: FCR.DB.C  
7.25% convertible debentures: FCR.DB.D  
Warrants: FCR.WT

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### Cautionary statement regarding forward-looking statements

This quarterly report contains forward-looking statements relating to First Capital Realty's operations and the environment in which it operates that are based on First Capital Realty's expectations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. First Capital Realty undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.



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