

First Capital Realty Inc.

09

ANNUAL REPORT



Green
Shopping For Everyday Life 



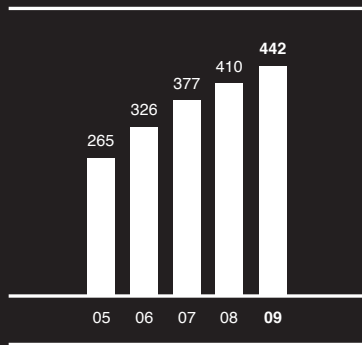
Shopping For Everyday Life ^{Green}

Corporate Profile

First Capital Realty (TSX:FCR) is Canada's leading owner, developer and operator of supermarket and drugstore-anchored neighbourhood and community shopping centres located predominantly in growing metropolitan areas. The Company currently owns interests in 176 properties, including three under development, totalling approximately 20.9 million square feet of gross leasable area and six land sites in the planning stage for future retail development. First Capital Realty has an enterprise value of over \$4.5 billion and trades on the Toronto Stock Exchange.

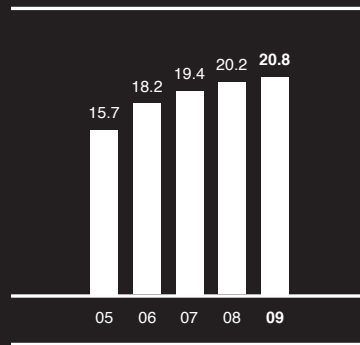
Property Rental Revenue

(\$ millions)



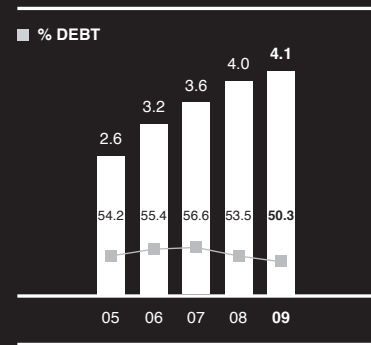
Gross Leasable Area

(millions of sq. ft.)



Debt to Aggregate Assets

(\$ billions)



Building Value

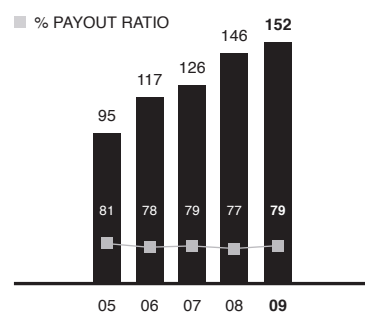
	2009	2008
<i>(millions of dollars)</i>		
Enterprise value	\$ 4,508	\$ 4,111
Debt to aggregate assets	50.3%	53.5%
Debt to total market capitalization	45.9%	52.6%
Property rental revenue	\$ 442.1	\$ 410.2
Net operating income	\$ 285.2	\$ 261.0

	2009		2008	
	\$ millions		per share	
Funds from operations (FFO) – Core operations	\$ 144.4	\$ 133.3	\$ 1.54	\$ 1.53
FFO – Non-recurring items ⁽¹⁾	7.6	12.6	0.08	0.14
Total FFO	\$ 152.0	\$ 145.9	\$ 1.62	\$ 1.67
Weighted average diluted shares for FFO	93,869	87,260		
Adjusted funds from operations (AFFO) – Core operations	\$ 143.4	\$ 132.3	\$ 1.40	\$ 1.38
AFFO – Non-recurring items ⁽¹⁾	8.4	8.4	0.08	0.09
Total AFFO	\$ 151.8	\$ 140.7	\$ 1.48	\$ 1.47
Weighted average diluted shares for AFFO	102,935	95,587		

⁽¹⁾ See Management's Discussion and Analysis.

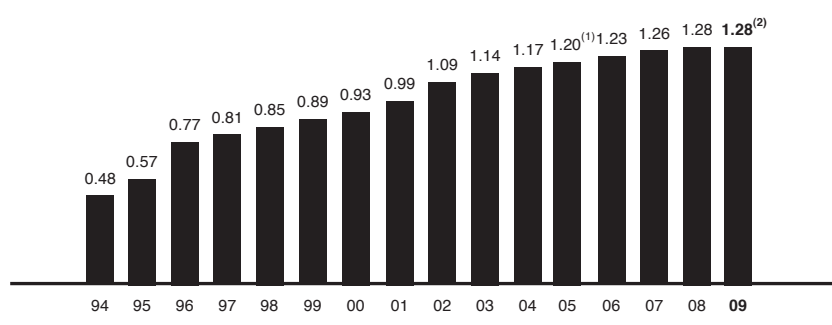
Funds From Operations

(\$ millions)



16 Years of Dividends

(\$ per share)



⁽¹⁾ Excludes special dividend of \$0.20 paid on April 6, 2005.

⁽²⁾ Excludes Gazit America dividend-in-kind of \$0.45 distributed on August 14, 2009.

A Growth Strategy

APPLIED TO A STABLE BUSINESS

2009 Operating Highlights

- Property rental revenue increased 8% to \$442 million
- Net operating income increased 9% to \$285 million
- Invested \$285 million in development activities, property improvements and acquisitions
- Average rent per occupied square foot increased by 3.6% to \$15.71
- 6.8% same-property growth including expansion and redevelopment space
- Occupancy of 96.2%

Sustainable Cash Flow

- 151 of 176 properties are supermarket- and/or drugstore-anchored
- 20.9 million square feet of gross leasable area
- Top 40 tenants provide 58.4% of annual rents and occupy 61.4% of the gross leasable area
- 24 of the top 40 tenants have investment-grade credit ratings
- Over 49.0% of all annual rents are from tenants with investment-grade credit ratings
- Dense infill urban locations with strong demographics

Tenant Profile



- Supermarkets, drugstores and liquor stores 34%
- National and discount retailers 16%
- Medical, gyms and other personal uses 13%
- Restaurants, fast food and coffee shops 11%
- Banks and governments 10%
- Other retailers 16%

90%

- OVER 90% OF OUR RENTS ARE FROM URBAN MARKETS
- OVER 90% OF OUR RENTS ARE FROM SHOPPING CENTRES ANCHORED BY SUPERMARKETS AND/OR DRUGSTORES

Urban Markets + Non- Discretionary Goods & Services = Defensive Asset Class

FOCUSSED GROWTH STRATEGY

- Build a portfolio of neighbourhood and community shopping centres in growing urban markets in Canada
- Actively manage the portfolio to meet our tenant needs for upgrades, expansion and relocation
- Invest in redevelopment, renovation and expansion to enhance returns
- Develop new properties in selective growth areas in our target markets to provide superior returns
- All development projects are built to LEED standards (since May 2006)

URBAN MARKETS



Our 7 Target Urban Markets

1. Greater Vancouver Area
2. Calgary
3. Edmonton
4. Greater Toronto Area
5. Ottawa Region
6. Greater Montreal Area
7. Quebec City

Message from the President

My Fellow Shareholders

2010 is an important milestone in our Company's history as we celebrate 10 years since this management team came aboard at First Capital Realty. To mark this anniversary, I thought it would be a good time to look back over the past decade to chart our progress and to talk about the lessons we have learned that I believe will help us continue to grow and prosper in the years ahead.

First, a report card on our accomplishments over the last 10 years:

- We have grown our portfolio of income-producing properties from 40 in 2000 to where we now own and operate 176 properties of which approximately 90% of the rents are supermarket and drugstore anchored shopping centres well-located in growing urban markets across the country.
- Over this same period our revenues have increased from \$148 million to a record \$442 million in 2009.
- We have acquired, developed, redeveloped, expanded or repositioned 139 properties since 2000, with total investments in our growth exceeding \$3.4 billion over this 10 year period. Importantly, almost all of our acquisitions and developments were one-off transactions, an indication of our relentless focus on quality.
- We have grown our portfolio from 6.2 million square feet to 20.8 million square feet at the end of 2009. Furthermore, our average rents per square foot have improved from \$12.10 in 2000 to \$15.71 today.
- We have become the industry leader in sustainable, environmentally-friendly development with all of our new properties since 2006 built or being built to LEED standards.

“...this management team has delivered to shareholders a total annual compounded return of 21% since we took over (10 years ago).”

- With the increase in the size and scale of our business, our cash flow from operations has also risen, growing from \$20 million in 2000 to approximately \$150 million in 2009. This represents a more than sevenfold increase.
- Notwithstanding this significant growth, the Company's balance sheet has strengthened considerably, with our debt-to-aggregate assets ratio improving from 84.2% in 2000 to 50.3% in 2009.
- Most importantly, this management team has delivered to shareholders a total annual compounded return of 21% since we took over.

2009 was one of the most unpredictable years in my history in this business but it has only served to emphasize how predictable First Capital's business is. We continued to deliver strong operating results in our core business while given the market turbulence, we proactively took action to bullet-proof our financial position which resulted in some increase in our cost of debt and equity capital. Our financial position remained very strong with a conservative capital structure and debt ratios, a well-balanced debt portfolio, \$1.2 billion in unencumbered assets, and an enterprise value exceeding \$4.5 billion.

In 2009, we continued our selective acquisition, development and redevelopment activities, investing \$285 million compared to \$330 million in 2008.

Significantly, we also completed the distribution of our indirect interest in Equity One to our shareholders. With this transaction, First Capital's asset base is now fully in the Canadian market, and we anticipate we will be a more attractive entity for foreign investors interested in Canadian retail real estate.

So what have we learned over the last decade, and how will these lessons help us to continue delivering value to us, the shareholders of First Capital Realty?

First and foremost, we have built a Company designed and structured to prosper in both good times and bad. Since the members of this management team entered the real estate business, we have all been through the numerous ups and downs of economic cycles, and have fortunately thrived in the boom periods and performed well in the down-turns. Our obligation is to run the Company with a long-term view, ensuring our planning and our strategies are geared to manage risk appropriately and make us less sensitive to economic cycles. Clearly, this focus and experience served us well in 2009.

The second lesson we learned was to develop a tenant base that can also withstand the ups and downs of the economy

over the long term. At First Capital, our properties cater to the everyday needs of Canadians. More than 80% of our revenues come from tenants such as supermarkets, drugstores, banks and financial institutions, liquor stores, doctors and medical practitioners, gyms, fast food and coffee shops, and many others that provide consumers with their daily necessities.

Importantly for our long-term success, our list of tenants reads like the Who's Who of Canadian retailing – strong and well-established brands familiar to consumers across the country and also complementary to each other's respective businesses. To put it simply, when the tenant mix is good, the shopping centre works really well. Of our top-forty tenants, over three-quarters of rents have investment-grade credit ratings. Of all our total rents just under half are derived from investment-grade rated companies. The financial strength and retail dominance of our tenant base stood us well through 2009 as we suffered very little default while occupancies remained stable and average lease rates continued to grow.

The third lesson learned over the last two decades is the importance of a strong balance sheet and flexible financial position. By having a well-balanced debt portfolio appropriately matched to lease terms with an extended average term to maturity, we take much of the financing risk out of our business. Our unencumbered assets provide a significant cushion and financial flexibility, a key reason First Capital possesses investment-grade credit ratings. All of these elements enable us to withstand difficult economic times while providing the resources to capitalize on growth opportunities as they present themselves.

Above all, the greatest lesson learned is to build the best team of people, and at First Capital we have the right people in the right places to properly and effectively manage our operations and our growth across the country for years to come. Our property managers, leasing professionals, acquisition, development and construction people, our accounting and finance group and our senior management team are all on the ground, each and every working day, keeping close to our tenants, our communities, our competition and our industry to ensure we remain at the forefront of our business. This is one of our most important competitive advantages.

Sylvie Lachance, the Company's Executive Vice President and Chief Operating Officer, is an excellent example of the professionalism and dedication of our team. Sylvie has been with me and First Capital since the beginning and has made

“... at First Capital we have the right people in the right places to properly and effectively manage our operations and our growth across the country for years to come.”

a significant contribution to our growth and success. Sylvie is leaving the Company to pursue other interests, and she will not be easy to replace. We wish her all the best in her future endeavours.

In short, over the last decade at First Capital we believe we have learned how to provide our shareholders with a “*balanced act*.” We continue to prudently manage our risk, we are constantly looking for long-term growth opportunities and we continue to execute our proven value-enhancing strategies and business model, generating solid and stable long-term performance through all economic cycles.

In closing, to my fellow co-workers who worked relentlessly to deliver a better future for all of us, I would like to express my appreciation. In addition, I would like to thank our tenants, service providers and partners for their support, our investors for their continued trust, and also our Board of Directors, under the leadership of our Chairman, Chaim Katzman, for their counsel and guidance.

Sincerely,



Dori J. Segal
President and Chief Executive Officer

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The financial data has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all amounts are in Canadian dollars, unless otherwise noted.

Certain statements contained in the "Business Overview and Strategy", "Business and Operations Review", "Capital Structure and Liquidity", "Outlook", "Summary of Significant Accounting Estimates and Policies", "Risks and Uncertainties" sections of this MD&A constitute forward-looking statements, and other statements concerning First Capital Realty's objectives and strategies and Management's beliefs, plans, estimates and intentions. Forward-looking statements can generally be identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "outlook", "objective", "may", "will", "should", "continue" and similar expressions. 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. Certain material factors and assumptions were applied in providing these forward-looking statements. All forward-looking statements in this MD&A are qualified by these cautionary statements.

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 "Risks and Uncertainties".

Factors that could cause actual results or events to differ materially from those expressed, implied or projected by forward-looking statements in addition to those described in the "Risks and Uncertainties" section 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, the relative illiquidity of real property, unexpected costs or liabilities related to acquisitions, construction, environmental matters, legal matters, reliance on key personnel, tenant financial difficulties and defaults, changes in interest rates and credit spreads, changes in the US-Canadian foreign currency exchange rate, changes in operating costs, First Capital Realty's ability to obtain insurance coverage at a reasonable cost and the availability of financing. The assumptions underlying the Company's forward-looking statements contained in the "Outlook" section of this MD&A include that consumer demand will remain stable, demographic trends will continue and there will continue to be barriers to entry in the markets in which the Company operates.

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 except as required by security laws.

These forward-looking statements are made as of March 10, 2010.

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for First Capital Realty Inc. ("First Capital Realty" or the "Company") should be read in conjunction with the Company's audited Consolidated Financial Statements and Notes for the years ended December 31, 2009 and 2008. Additional information, including the Company's current Annual Information Form, is available on SEDAR's website at www.sedar.com and on the Company's website at www.firstcapitalrealty.ca. Historical results and percentage relationships contained in its interim and annual consolidated financial statements and MD&A, including trends which might appear, should not be taken as indicative of its future operations. The information contained in this MD&A is based on information available to Management as of March 10, 2010.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (TSX:FCR) is Canada's leading owner, developer and operator of supermarket and drugstore-anchored neighbourhood and community shopping centres, located predominantly in growing metropolitan areas. As at December 31, 2009, the Company owned interests in 175 properties, including three under development, totalling approximately 20.8 million square feet of gross leasable area and six land sites in the planning stage for future retail development.

First Capital Realty was incorporated in November 1993 and conducts its business directly and through subsidiaries.

First Capital Realty's primary strategy is the creation of value over the long term by generating sustainable cash flow and capital appreciation of its shopping centre portfolio. To achieve its strategic objectives Management continues to:

- undertake selective development and redevelopment activities including land use intensification;
- be focussed and disciplined in acquiring income-producing properties; and
- proactively manage its existing shopping centre portfolio.

Urban Focus

The Company targets specific urban markets with stable and/or growing populations despite, and because of, the high barriers to entry. The Company intends to continue to operate primarily in and around its target urban markets of the Greater Toronto area including the Golden Horseshoe area and London; the Calgary and Edmonton area; the Greater Vancouver area including Vancouver Island; the Greater Montreal area; the Ottawa and Gatineau region and Quebec City. Over 90% of the Company's annual minimum rent is derived from these urban markets. Management believes that urban retail properties typically will generate sustainable returns on investment, and over time, capital appreciation. Management believes that concentration on urban markets and shopping centres that provide daily necessities also makes the Company's portfolio less sensitive to economic cycles.

The Company targets well-located properties in urban markets with strong demographics that Management expects will attract quality tenants with long lease terms. Specifically, Management looks to own and operate properties that are well located within dense urban areas that provide consumers with daily necessities including both products and services. Over 80% of the Company's revenues come from tenants providing these daily necessities which include supermarkets, drugstores, banks, liquor stores, national discount retailers, quick service restaurants and medical and other personal services. In Management's view, such tenants are somewhat less sensitive to economic cycles due to the high component of consumer non-discretionary spending for such products and services, making these tenants desirable for the Company's type of properties.

First Capital Realty actively acquires, develops, redevelops, expands and refurbishes its properties in its target markets across Canada to generate accretive growth. The Company has critical mass in its target markets which helps generate economies of scale and operating synergies, as well as real time market knowledge.

The Company believes that a quality location is the single most important factor in acquiring, developing, redeveloping, owning and operating a retail property over the long term. First Capital Realty assesses the quality of locations based on a number of factors in the trade area of a property, including demographic trends, potential for competitive retail space and existing and potential tenants in the market.

Once the Company has acquired a property in a specific retail trade area it will look to acquire adjacent or nearby properties. These additional properties allow the Company to provide maximum flexibility to its tenant base to meet their changing formats and size requirements over the long term. Adjacent properties also allow the Company to essentially expand or integrate its existing property, providing a better retail offering for consumers, Management believes that its adjacent sites acquisitions and strategies result in a more stable cash flow over the long-term and better return on investment long-term.

Management also believes that the Company's shopping centres, along with its portfolio of adjacent sites, gives it unique intensification opportunities, including not only expanded retail opportunities but also mixed use developments. The Company has proven development and redevelopment capabilities across the country to enable it to capitalize on these opportunities. The land use intensification trend in the Company's target urban markets is driven by the costs of expanding infrastructure beyond existing urban boundaries, the desire by municipalities to increase the tax base, environmental considerations and the migration of people to vibrant urban centres. This provides the Company with an opportunity to use its existing platform to sustain and improve cash flows and realize capital appreciation over the long term through its ownership and development and redevelopment activities.

Income-Producing Portfolio

The Company's properties are summarized as follows:

December 31	2009				2008			
	Number of Properties ⁽¹⁾	Gross Leasable Area (000's sq. ft.)	Percent Occupied	% of Annual Minimal Rent	Number of Properties ⁽¹⁾	Gross Leasable Area ⁽²⁾ (000's sq. ft.)	Percent Occupied	% of Annual Minimum Rent
Ontario	67	9,316	98.2%	46%	66	8,943	98.2%	47%
Quebec	57	5,424	95.1%	22%	56	5,317	95.8%	22%
Alberta	29	4,298	95.1%	22%	27	4,103	94.4%	21%
British Columbia	20	1,684	93.2%	9%	19	1,647	94.3%	9%
Other provinces	2	90	81.1%	1%	3	156	90.3%	1%
Total	175	20,812	96.2%	100%	171	20,166	96.4%	100%

⁽¹⁾ Includes three properties under development in 2009 and five in 2008.

⁽²⁾ The Company has changed its method of recording GLA and occupied space. See the "Leasing and Occupancy" section of this MD&A.

Grocery stores and/or drugstores anchor over 85% of these shopping centres. The average size of the shopping centres is approximately 120,000 square feet with sizes ranging from 20,000 to over 500,000 square feet.

In Management's view, one measure of the quality of a shopping centre is the ability of the centre to attract and retain quality tenants. The Company's top ten tenants by percent of total annual minimum rent, and their respective credit ratings, portfolio presence and average remaining lease terms at December 31, 2009 are listed in the table below:

Tenant	DBRS Credit Rating	Number of Stores	Square Feet	Percent of Total Canadian Gross Leasable Area	Percent of Total Canadian Annualized Minimum Rent	Remaining Lease Term in Years
1 Sobeys (including Western Cellars)	BBB	49	1,673,000	8.0%	7.4%	10.3
2 Shoppers Drug Mart	A (LOW)	62	880,000	4.2%	6.6%	9.5
3 Loblaws	BBB	28	1,436,000	6.9%	5.2%	8.7
4 Metro	BBB	29	1,103,000	5.3%	4.3%	11.6
5 Zellers/Home Outfitters		20	1,755,000	8.4%	3.8%	7.4
6 Canadian Tire	A (LOW)	21	805,000	3.9%	3.4%	8.8
7 TD Canada Trust	AA	38	204,000	1.0%	2.1%	6.3
8 Royal Bank	AA	35	182,000	0.9%	1.6%	5.4
9 Canada Safeway	BBB	7	345,000	1.7%	1.4%	7.2
10 Staples		12	262,000	1.3%	1.1%	6.6
		301	8,645,000	41.6%	36.9%	9.0

At December 31, 2009, the Company's top 40 tenants, including the top ten above, represented 58.4% of the Company's annualized minimum rents and 61.4% of the gross leasable area in the Company's portfolio. More than 77.1% of those rents in the top 40 are from tenants who have investment grade credit ratings and who represent many of Canada's leading supermarket operators, drugstore chains, discount retailers, banks and other familiar shopping destinations. Furthermore, over 49.0% of the Company's total annualized minimum rents are from tenants who have investment grade credit ratings.

Development and Redevelopment

The Company pursues selective development and redevelopment activities including land intensification projects, either alone or with joint-venture partners, in order to actively participate in growth markets and to achieve a better return on its portfolio. Investments in development and redevelopment activities generally comprise approximately 5–8% of the Company's total asset value at any given time. Redevelopment projects at existing properties are carefully managed to minimize tenant downtime. Generally, redevelopment of existing properties carries a lower risk profile relative to the returns due to the existing tenant base and the intensification opportunities. These properties continue to operate during the planning, zoning and leasing phases of the project. The intensification activities are focussed primarily on increasing retail space on a property and to a lesser degree, mixed use density, including office uses and residential (certain properties only). The Company expects intensification activities to increase over the next several years. New "greenfield" shopping centres are developed after obtaining anchor tenant lease commitments. The Company will sometimes carry vacant space for a planned future expansion of tenants or reconfiguration of a property. To facilitate its development activities the Company will acquire greenfield land sites in addition to sites or properties adjacent to existing properties. The Company strategically manages its development activities to reduce development risks.

Corporate Sustainability

In 2009, the Company released its first Corporate Sustainability Report which outlines First Capital's environmental sustainability initiatives. The report formalizes the Company's commitment to corporate sustainability and over time Management will develop guidelines and benchmarks to measure performance and accomplishments. This report is available on the Company's website at www.firstcapitalrealty.ca.

Development projects built according to LEED certification standards is the cornerstone of the Company's sustainability initiatives.

Since May 2006, the Company has 36 "Green" LEED development projects underway in the planning stage, in the final stage of development or completed.

The LEED rating system is the internationally accepted benchmark for the design, construction, and operation of high performance green buildings. Achieving LEED certification is the leading way for organizations to demonstrate that their building project is environmentally friendly. The certification promotes a whole building approach to sustainability by recognizing performance in five key areas of human and environmental health: sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality.

Acquisitions of Income-Producing Properties

Management seeks to acquire well-located neighbourhood and community shopping centres in the Company's target urban markets that it believes will provide an appropriate return on investment over the long term. The Company typically makes acquisitions of individual properties that enhance the quality of its portfolio by virtue of their location, demographics and tenant base or that also have redevelopment opportunities. Through acquisitions, the Company expands its presence in its target urban markets in Canada, in order to continue to generate greater economies of scale and leasing and operating synergies. The Company also looks to acquire adjacent or nearby sites and/or properties in a retail trade area where it has established a presence. In addition to one-off property transactions, Management will look for strategic or portfolio acquisitions, in both existing markets and markets where the Company does not yet have a presence. Historically, such portfolio opportunities with properties of the same quality as the Company's are rare.

Proactive Management

The Company views proactive management of its existing portfolio and newly acquired properties as an important part of its strategy. Proactive management encompasses continued investment in properties to ensure they remain attractive to quality retail tenants and their customers over the long term. Specifically, Management strives to create and maintain the highest standards in lighting, parking, access and general appearance of its properties. The Company's proactive management strategies have historically contributed to improvement in occupancy levels and average lease rates throughout the portfolio.

The Company is fully internalized and all value creation activities including development management, leasing, lease administration and legal, construction management and tenant co-ordination functions are directly managed and executed by experienced real estate professionals. Employees with these real estate capabilities are located in each of the Company's offices in Toronto, Montreal, Calgary, Edmonton and Vancouver in order to effectively serve the major urban markets where First Capital Realty operates.

The Company has acquired the remaining 40% ownership interest in the joint venture ("FCB") with Brookfield LePage Johnson Controls Facility Management Services that provides property management services for its properties. The acquisition was effective January 2010 with no expected material change in operations or operating margins from the acquisition of this remaining interest. The Company incurred costs of \$0.8 million related to this transaction and the internalization.

With full internalization of the systems infrastructure in 2010, the Company will focus on improving the quality and efficiency of its activities together with supporting its human capital. The Company is primarily focussed on continued implementation, upgrading and enhancing of the systems infrastructure for property management, development project costing and purchasing, budgeting and forecasting tool, lease activity manager and central electronic First Capital Realty portal.

Company Key Performance Measures

There are many factors that contribute to the successful operation of First Capital Realty's business including rental rates, renewal rates, occupancy rates, tenant quality, availability of properties and development sites that meet the Company's acquisition criteria, financing rates, tenant inducements, maintenance and general capital expenditure requirements, development costs and the broader economic environment. The Company quantifies the collective results of all of these factors into key measures: funds from operations and adjusted funds from operations ("FFO" and "AFFO" respectively) per diluted share and the overall leverage level. FFO and AFFO are non-GAAP measures of operating performance which are defined and reconciled to relevant GAAP measures in the "Results of Operations" section of this MD&A. Despite the challenging economic environment throughout much of 2009, the Company has continued to improve its key performance measures.

FFO and AFFO

The Company's FFO and AFFO from core operations have shown consistent growth, resulting primarily from growth in net operating income. (See definition in "Results of Operations" section of this MD&A.) This has been achieved through:

- development and redevelopment coming on line;
- active portfolio management, which ultimately results in higher occupancy and rental rates; and
- focussed and disciplined acquisitions of income producing properties.

The Company has also enhanced its operating platform in order to create the efficiencies required to grow the portfolio while keeping the growth in operating costs to a minimum.

During 2009, the Company completed a strategic initiative to distribute to shareholders through a dividend-in-kind, the Company's interest in Gazit America Inc., which is the Canadian company that indirectly owned the Company's interest in Equity One. Following this transaction, the Company no longer has any interest in Equity One.

As a result the FFO and AFFO per share are presented for core real estate operations and the amounts for Equity One and other non-recurring gains/losses and expenses are segregated. See the FFO and AFFO section and Other Gains/Losses and Expenses in this MD&A for further explanation.

	2009	2008 ⁽¹⁾	2007 ⁽¹⁾
FFO per diluted share – Core operations ⁽²⁾	\$ 1.54	\$ 1.53	\$ 1.48
FFO per diluted share – EQY and other non-recurring items	0.08	0.14	0.13
Total FFO per diluted share ⁽³⁾	\$ 1.62	\$ 1.67	\$ 1.61
AFFO per diluted share – Core operations ⁽²⁾	\$ 1.40	\$ 1.38	\$ 1.34
AFFO per diluted share – EQY and other non-recurring items	0.08	0.09	0.08
Total AFFO per diluted share ⁽³⁾	\$ 1.48	\$ 1.47	\$ 1.42

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards. See “Summary of Changes to Significant Accounting Policies” section of this MD&A.

⁽²⁾ Excludes the effects of the Investment in Equity One and one-time transactional gains and losses as described in the Reconciliation of Funds from Operations in “Results of Operations” section of this MD&A.

⁽³⁾ Excludes dilution gains/losses on Equity One investment and the Company’s share of non-cash impairment losses recorded by Equity One.

Leverage

The key leverage ratios demonstrate that the Company has continued to maintain a conservative balance sheet despite the growth in the portfolio. Management believes that this will continue to provide the Company with financial flexibility which is critical against a backdrop of changing debt and equity markets.

	2009	2008 ⁽¹⁾	2007 ⁽¹⁾
Debt to aggregate assets	50.3%	53.5%	56.6%
Debt to market capitalization	45.9%	52.6%	48.8%

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards. See “Summary of Changes to Significant Accounting Policies” section of this MD&A.

2009 Performance

Management undertook and completed many strategic, operational and property management initiatives in order to continue to improve the key performance measures:

Same property net operating income (“NOI”) growth, taking into account maintaining high occupancy

Same property NOI growth was 6.8% for the year. This primarily resulted from redevelopment and expansion of shopping centres, increases in portfolio occupancy and increasing rental rates on new tenants and renewals. Same property NOI growth, excluding lease terminations was 5.6% for the year. Without redevelopment and expansion activity and excluding lease termination fees, same property NOI growth was 1.7% for the year.

Occupancy was 96.2% as of December 31, 2009 compared to 96.4% as at December 31, 2008.

Development and redevelopment activities

In 2009, the Company invested \$209 million in development activities and portfolio improvements, bringing \$268.4 million of development and redevelopment on line.

The Company delivered 754,000 square feet of newly developed and redeveloped space that was 94.4% occupied with an average rental rate of \$22.79 per square foot in 2009.

The Company invested in its existing properties, including facades, lighting, signage and parking lots at various properties.

In addition, the Company continued to build under LEED certification and launched a broader corporate sustainability initiative.

Selective acquisitions

In 2009, the Company invested \$76.2 million in the acquisition of five income-producing shopping centres comprising 225,000 square feet, two properties adjacent to existing shopping centres totalling 31,000 square feet, one land site, and four land parcels adjacent to existing properties comprising a total of 9.7 acres.

Increasing efficiency and productivity of operations

During the year, the Company developed and implemented a strategic plan for full internalization of property management and system infrastructure which includes integration of property management functions into the Company’s business operations.

Management also implemented system enhancements and upgrades, a new development project costing system, a central electronic FCR portal and other efficiency and process improvements as part of the preparation for full internalization in 2010 of the property management infrastructure. These enhancements will set the foundation for further efficiency and productivity improvements in 2010.

Careful capital allocation to decrease dependence on capital markets

The Company distributed, via dividend-in-kind, its interest in Equity One and the term loans and credit facilities secured by it. Following this transaction the Company's activities are solely focussed in Canada.

The Company utilized multiple sources of debt and equity capital to finance the investments in development activities and acquisitions during the year.

- Completed a three-year \$450 million secured revolving credit facility with a syndicate of ten banks, as well as a three-year \$75 million secured revolving credit facility in the first quarter of 2009.
- Completed 13 mortgage financing transactions for gross proceeds of \$187.3 million with a weighted average interest rate of 6.21% and a weighted average term to maturity of 8.5 years.
- In the second half of 2009, the state of capital markets improved and the Company completed the issuance of \$125 million principal amount senior unsecured debentures and a further \$125 million principal amount subsequent to December 31, 2009.
- Raised gross proceeds of \$189.8 million in equity capital from the issuance of common shares, warrants and convertible debentures, also in the second half of 2009.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

As at December 31 (thousands of dollars, except per unit and other financial data)	2009	2008 ⁽¹⁾	2007 ⁽¹⁾
Operations Information			
Number of properties ⁽²⁾	175	171	161
Gross leasable area (square feet) ⁽³⁾	20,812,000	20,166,000	19,382,000
Development land pipeline, including development underway (acreage) ⁽⁴⁾	295	352	394
Portfolio occupancy ⁽³⁾	96.2%	96.4%	95.3%
Rate per occupied square foot	\$ 15.71	\$ 15.17	\$ 14.56
Gross leasable area brought on line for the year (square feet)	754,000	835,300	521,400
Same property net operating income ("NOI")			
– increase over same prior year	6.8%	3.8%	4.9%
Same property NOI excluding expansion and redevelopment			
– increase over same prior year	2.7%	2.1%	3.4%
Same property NOI excluding one-time lease termination fees and excluding expansion and redevelopment			
– increase over same prior year	1.7%	2.1%	3.4%
Financial Information			
Gross shopping centre investments ⁽⁵⁾	\$ 3,725,023	\$ 3,394,729	\$ 3,071,159
Land and shopping centres under development	\$ 224,772	\$ 281,959	\$ 284,077
Real property investments, net book value	\$ 3,540,358	\$ 3,350,410	\$ 3,107,489
Investment in Equity One, Inc.	\$ —	\$ 227,259	\$ 191,536
Total assets	\$ 3,691,643	\$ 3,707,625	\$ 3,399,106
Total aggregate assets ⁽⁶⁾	\$ 4,105,827	\$ 4,034,366	\$ 3,640,724
Mortgages, loans and credit facilities unsecured or secured by Canadian properties	\$ 1,354,668	\$ 1,419,758	\$ 1,343,138
Loans and credit facilities secured by investment in Equity One	\$ —	\$ 153,772	\$ 127,976
Senior unsecured debentures payable	\$ 717,040	\$ 593,288	\$ 595,376
Convertible debentures payable	\$ 329,739	\$ 218,247	\$ 217,030
Shareholders' equity	\$ 1,095,843	\$ 1,095,146	\$ 950,759
Capitalization and Leverage			
Shares outstanding	96,045,394	90,002,581	79,681,929
Enterprise value ⁽⁷⁾	\$ 4,507,560	\$ 4,110,879	\$ 4,218,074
Debt to aggregate assets ⁽⁶⁾	50.3%	53.5%	56.6%
Debt to market capitalization ⁽⁶⁾	45.9%	52.6%	48.8%

Year ended December 31 (thousands of dollars, except per share amounts and other financial data)	2009	2008 ⁽¹⁾	2007 ⁽¹⁾
Revenues and Income			
Revenues	\$ 447,743	\$ 411,751	\$ 378,874
Net operating income ⁽⁸⁾	\$ 285,177	\$ 261,040	\$ 243,736
Corporate expenses, excluding capital taxes and non-cash compensation	\$ 17,491	\$ 16,490	\$ 17,425
As a percent of rental revenue	4.0%	4.0%	4.6%
As a percent of gross total assets	0.4%	0.4%	0.5%
Other (losses) gains and (expenses)	\$ (1,414)	\$ 7,281	\$ 3,124
Net income	\$ 41,913	\$ 37,341	\$ 30,410
Basic and diluted earnings per share	\$ 0.45	\$ 0.43	\$ 0.39
Equity One (through August 14, 2009 – see “Equity One” section of this MD&A)			
Equity income (Cdn\$)	\$ 7,066	\$ 8,716	\$ 14,375
Dividends from Equity One (Cdn\$)	\$ 12,452	\$ 18,193	\$ 17,617
Dividends from Equity One (US\$)	\$ 10,514	\$ 16,809	\$ 16,756
Average exchange on dividends (US\$ to Cdn\$)	1.18	1.08	1.05
Dividends			
Regular dividends	\$ 120,731	\$ 113,116	\$ 98,688
Dividend-in-kind (book value) ⁽⁹⁾	\$ 63,525	\$ —	\$ —
Regular dividends per common share	\$ 1.28	\$ 1.28	\$ 1.26
Dividend-in-kind per common share (fair value) ⁽⁹⁾	\$ 0.45	\$ —	\$ —
Dividends reinvested by shareholders	\$ —	\$ 40,331	\$ 76,316
Funds from Operations (“FFO”) ⁽¹⁰⁾			
FFO	\$ 151,320	\$ 141,345	\$ 126,204
FFO per diluted share	\$ 1.61	\$ 1.62	\$ 1.61
Weighted average diluted shares – FFO	93,868,815	87,260,224	78,427,583
FFO – Core Operations ⁽¹⁰⁾			
FFO	\$ 144,359	\$ 133,322	\$ 116,042
FFO per diluted share	\$ 1.54	\$ 1.53	\$ 1.48
Adjusted Funds from Operations (“AFFO”) ⁽¹⁰⁾			
AFFO	\$ 151,831	\$ 140,743	\$ 122,481
AFFO per diluted share	\$ 1.48	\$ 1.47	\$ 1.42
Weighted average diluted shares – AFFO	102,934,634	95,586,511	86,304,978
AFFO – Core Operations ⁽¹⁰⁾			
AFFO	\$ 143,464	\$ 132,382	\$ 115,669
AFFO per diluted share	\$ 1.40	\$ 1.38	\$ 1.34

(1) Prior year comparative figures have been restated for a change in accounting standards. See “Summary of Changes to Significant Accounting Policies” section of this MD&A.

(2) Includes properties currently under development.

(3) The Company has changed its method of recording GLA and occupied space. See the “Leasing and Occupancy” section of this MD&A.

(4) Net of partners’ interests.

(5) Gross shopping centre investments is comprised of the gross book value of shopping centres, deferred leasing costs and intangible assets less intangible liabilities.

(6) Calculated in accordance with the unsecured debentures indenture definitions for the period.

(7) Enterprise value is a non-GAAP measure and is calculated as equity market capitalization plus the book value of mortgages and credit facilities, and the principal amount of debentures and convertible debentures outstanding.

(8) Net operating income is a non-GAAP measure of operating performance. See definition of Net Operating Income in “Results of Operations” section of this MD&A.

(9) See discussion of Dividend-in-kind in “Equity One, Inc.” section of this MD&A.

(10) FFO and AFFO are measures of operating performance that are not defined by GAAP. See Definition and Reconciliation of Funds From Operations in “Results of Operations” section of this MD&A.

BUSINESS AND OPERATIONS REVIEW**Real Estate Investments**

A summary of the Company's real estate investments is set out below.

(millions of dollars)	December 31, 2009			December 31, 2008 ⁽¹⁾		
	Gross Book Value	Accumulated Amortization	Net Book Value	Gross Book Value	Accumulated Amortization	Net Book Value
Shopping centres	\$ 3,663	\$ 375	\$ 3,288	\$ 3,339	\$ 299	\$ 3,040
Deferred leasing costs	31	14	17	27	11	16
Intangible assets	53	30	23	54	24	30
Intangible liabilities	(22)	(9)	(13)	(25)	(8)	(17)
Land and shopping centres under development	225	—	225	282	—	282
Real property investments	3,950	410	3,540	3,677	326	3,351
Investment in Equity One, Inc. ⁽²⁾	—	—	—	227	—	227
Loans, mortgages and other real estate assets	59	—	59	32	—	32
Real estate investments	\$ 4,009	\$ 410	\$ 3,599	\$ 3,936	\$ 326	\$ 3,610

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

⁽²⁾ See discussion of Dividend-in-kind in "Equity One, Inc." section of this MD&A.

The Company's total investments in its acquisition, development and portfolio improvement activities is summarized as follows:

(millions of dollars)	2009	2008 ⁽¹⁾
Gross real property investments, January 1	\$ 3,677	\$ 3,355
Acquisition of income-producing properties	60	52
Acquisition of additional interests in existing properties and land parcels	—	2
Acquisition of additional space and land parcels adjacent to existing properties and properties held for development	16	16
Acquisition of land for development	—	6
Development activities and portfolio improvements	209	258
Disposition of real estate	(4)	(9)
Other	(8)	(3)
Gross real property investments, December 31	\$ 3,950	\$ 3,677
Gross shopping centre investments	\$ 3,725	\$ 3,395
Land and shopping centres under development	225	282
Gross real property investments, December 31	\$ 3,950	\$ 3,677

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

The Company's operating activities are comprised of acquisitions of income-producing properties, acquisitions of additional space and land parcels at or adjacent to existing income-producing properties, acquisitions of land sites for future development, capital improvements and leasing at the Company's properties. These operating activities for 2009 and 2008, along with the Company's interest in Equity One, are discussed below.

Income-Producing Properties

As at December 31, 2009, the Company had interests in 175 income-producing properties which were 96.2% occupied with a total GLA of 20,812,000 square feet. This compares to 96.4% occupied and 20,166,000 square feet at December 31, 2008. The occupancy in the portfolio is discussed in more detail under the "Leasing and Occupancy" section of this MD&A.

2009 Acquisitions

In 2009, the Company invested \$60.5 million in the acquisition of five income-producing shopping centres, comprising 225,000 square feet. Of these properties, four were anchored by supermarkets and one was anchored by a drugstore. These acquisitions are in the Company's target urban markets and demonstrate the Company's continuing focus on these urban markets. The acquisitions, all of which were completed on an individual basis, are summarized in the table below.

Property Name	City	Province	Quarter Acquired	Supermarket-Anchored	Drugstore-Anchored	Gross	
						Leasable Area (Square Feet)	Acquisition Cost (in millions)
Danforth-Sobeys	Toronto	ON	Q1	✓	—	27,000	\$ 5.8
St. Denis	Montreal	QC	Q2	—	✓	11,000	3.5
Meadowbrook Centre	Edmonton	AB	Q2	✓	—	42,000	8.8
Langford Centre	Victoria	BC	Q3	✓	—	65,000	10.3
Cranston Market	Calgary	AB	Q4	✓	—	80,000	32.1
Total						225,000	\$ 60.5

During the year, the Company also sold a 66,000 square foot retail property in Regina, Saskatchewan for cash proceeds of \$1.5 million and a vendor-take-back mortgage of \$2.3 million, resulting in a gain of \$0.5 million.

Additional Space and Adjacent Land Parcels

In 2009, the Company acquired additional space at two existing shopping centres and four land parcels adjacent to existing properties adding 31,000 square feet of gross leasable area and 1.3 acres of commercial land. Total expenditures on these additional interests and land parcels amounted to \$8.0 million. These acquisitions are set out in the table below.

Property Name	City	Province	Quarter Acquired	Acreage	Gross	
					Leasable Area (Square Feet)	Acquisition Cost (in millions)
Petro Canada Lands (Bowmanville A&P)	Bowmanville	ON	Q1	0.4	—	\$ 0.4
4543 Kingston Road (Morningside Crossing)	Toronto	ON	Q1	0.3	—	1.0
1100 King St. W (Shops at King Liberty)	Toronto	ON	Q4	0.5	—	1.3
115 Laird (Leaside Village)	Toronto	ON	Q4	0.1	—	0.8
Danforth-Sobeys 2	Toronto	ON	Q4	—	4,000	0.9
Place Lucerne (Centre D'Achats Ville Mont-Royal)	Mont Royal	QC	Q4	—	27,000	3.6
Total				1.3	31,000	\$ 8.0

2009 Acquisition of a Property held for Development

During 2009, the Company invested \$7.7 million in the acquisition of one property in Toronto, Ontario held for development, comprising 8.4 acres of commercial land for future development.

Impact of 2009 Acquisitions on Continuing Operations

Management will continue to be selective and take a highly disciplined approach to increasing the size and quality of the Company's property portfolio, seeking acquisitions that are both operationally and financially accretive over the long term. Management looks for benefits from economies of scale and operating synergies in order to strengthen the Company's competitive position in its target urban markets. As well, Management seeks to enhance the tenant and geographic diversification of the portfolio.

The 2009 acquisitions are in line with the Company's business strategy based on their locations, tenancies and redevelopment or expansion opportunities.

Subsequent to December 31, 2009, the Company invested \$61 million in the acquisition of one income-producing property totalling 66,000 square feet in Victoria, BC, one property adjacent to an existing shopping centre totalling 15,000 square feet, two properties held for future development and two land parcels adjacent to existing properties comprising a total of 5.0 acres of commercial land for future development.

2009 Development Activities

Development is completed selectively, based on opportunities in the markets where the Company operates. Development activities are comprised of greenfield development of new shopping centres, redevelopment and refurbishment of existing shopping centres and expansion of space at existing shopping centres. All development activities are strategically managed to reduce risks and properties are developed after obtaining anchor lease commitments.

Development of 620,400 square feet was brought on line in 2009 with 578,300 square feet leased at an average rate of \$22.82 per square foot. The Company also reopened 133,600 square feet of redeveloped space at an average rate of \$22.67 per square foot.

Property Name	City	Province	Square Feet	Major Tenants
Development of new gross leasable area ⁽¹⁾				
Rutherford Marketplace ⁽²⁾	Vaughan	ON	95,800	Longo's, Shoppers Drug Mart, RBC, Pathways Academy
Towerlane Centre ⁽²⁾	Airdrie	AB	61,100	Super Drug Mart, Gold's Gym, Dollarama
Hunt Club ⁽²⁾	Ottawa	ON	60,800	T & T Supermarket
Derry Heights ⁽²⁾	Milton	ON	45,200	CIBC, RBC, Shoppers Drug Mart
Morningside Crossing ⁽²⁾	Toronto	ON	35,600	Shoeless Joe's, Royal Lepage, FCR Property Management
McKenzie Towne Centre ⁽²⁾	Calgary	AB	30,900	TD Canada Trust, Brewsters
Bowmanville	Bowmanville	ON	22,700	Staples, The Beer Store
Olde Oakville ⁽²⁾	Oakville	ON	22,200	LCBO, Westmarine
Grimsby Square Shopping Centre ⁽²⁾	Grimsby	ON	20,000	Canadian Tire (expansion), The Beer Store
Dickson Trail Crossing ⁽²⁾	Airdrie	AB	18,400	Starbucks, Brewsters, Other CRU
Carrefour St. Hubert ⁽²⁾	St. Hubert	QC	18,300	McDonald's
King Liberty Village – Barrymore Building ⁽²⁾	Toronto	ON	17,800	Altus Architecture
Sherwood Centre	Sherwood Park	AB	17,000	Shoppers Drug Mart
Eagleson Place ⁽²⁾	Ottawa	ON	13,900	Westend Family Care Clinic
Thai House ⁽²⁾	Vancouver	BC	12,200	TD Canada Trust, Boston Pizza
Place Kirkland	Kirkland	QC	12,100	IGA (Expansion)
Carrefour St. David ⁽²⁾	Quebec City	QC	10,400	Uniprix
Other space – various properties			106,000	
			620,400	
Redevelopment of existing gross leasable area				
Northgate Centre	Edmonton	AB	64,600	Capital Health Authority, Edmonton Musculoskeletal Centre, Labour Market, The X-Ray Clinic
Centre Commercial Beaconsfield ⁽²⁾	Beaconsfield	QC	19,100	Shoppers Drug Mart
Coronation Mall	Duncan	BC	18,500	Shoppers Drug Mart
Sherwood Centre	Edmonton	AB	9,900	Dollarama
Galeries Normandie	Montreal	QC	6,000	Bank of Montreal
Other space – various properties			15,500	
			133,600	
Total			754,000	

⁽¹⁾ Includes new space created in redevelopment properties and greenfield developments.

⁽²⁾ Constructed in accordance with Leadership in Energy and Environmental Design (LEED) certificate guidelines.

The 2009 development of 754,000 square feet compares with 835,300 square feet developed in 2008. The developed space, including redevelopment was 94.4% occupied when transferred to income-producing shopping centres at an average rental rate of \$22.79 per square foot. These successfully completed development projects illustrate the potential future value of investments in ongoing development initiatives that are not yet generating income, but are expected to contribute to the growth of the Company.

The Company's development sites and properties as at December 31, 2009 are summarized as follows:

	Number of Sites/Properties	Acreage ⁽¹⁾	Developable Square Feet ⁽¹⁾ (in thousands)	Net Book Value (in millions)
Development properties under construction	3	21.9	204.6	\$ 39.4
Redevelopment projects underway	8	21.5	467.8	47.7
Expansion projects underway	6	5.0	53.9	8.9
Properties held for development	10	125.9	1,155.0	60.5
Land parcels adjacent to/part of existing properties	22	94.6	1,039.5	58.5
Land parcels adjacent to/part of existing properties available for expansion	12	26.4	251.7	—
Other development related costs	—	—	—	9.8
Total	61	295.3	3,172.5	\$ 224.8

⁽¹⁾ Net of partners' interests.

As at December 31, 2009, 726,300 square feet of gross leasable area was under development, redevelopment or expansion on 48.4 acres of land sites or parcels of land adjacent to existing properties. Costs to complete these developments are estimated to be approximately \$120.2 million, the majority of which will be incurred in 2010 and the first quarter of 2011. In the management of its development and expansion program, the Company utilizes dedicated internal professional staff. Direct and incremental costs of development, including applicable salaries and other direct costs of internal staff, are capitalized to the cost of the property under development.

At December 31, 2009, six land sites included in properties held for development and land parcels adjacent to/part of existing properties comprising the Company's net interest of 89.2 acres and developable square feet totalling 759,000 square feet are in the planning stage of development. In addition, the Company is actively planning future redevelopment and/or expansion at 20 additional shopping centres.

2008 Acquisitions

Income-Producing Properties

In 2008, First Capital Realty expanded its portfolio through various acquisitions as set out below.

Property Name	City	Province	Quarter Acquired	Supermarket- Anchored	Drugstore- Anchored	Gross Leasable Area (Square Feet)	Acquisition Cost (in millions)
Derry Heights Plaza	Milton	ON	Q1	—	—	49,000	\$ 4.1
Deer Valley Shopping Centre	Calgary	AB	Q3	✓	✓	196,000	31.6
216 Elgin Street	Ottawa	ON	Q3	—	—	12,100	5.9
Gorge Shopping Centre	Victoria	BC	Q4	—	✓	35,000	10.6
Total						292,100	\$ 52.2

During 2008, the Company also sold a 26,000 square foot retail property in Regina, Saskatchewan for cash proceeds of \$3.6 million, resulting in a gain of \$1.6 million.

Additional Space and Adjacent Land Parcels

In 2008, the Company acquired one land site adjacent to an existing property held for development and seven land parcels at or adjacent to existing properties adding 12.5 acres of commercial land. Total expenditures on these additional interests and land parcels amounted to \$16.6 million. These acquisitions are set out in the table below.

Property Name	City	Province	Quarter Acquired	Acreage	Acquisition Cost (in millions)
Milton Land (Derry Heights Plaza) 395, 425, 435 St. Charles	Milton	ON	Q1	6.19	\$ 4.2
(Marche du Vieux Longueuil)	Longueuil	QC	Q1	3.29	4.7
Kanata Terry Fox (Eagleson Place)	Ottawa	ON	Q1	0.01	0.1
Petro Canada (Hunt Club Place) South Fraser Gate Lane	Ottawa	ON	Q1	1.50	0.7
(South Fraser Gate)	Abbotsford	BC	Q1	0.01	0.1
437 Greber (Place Nelligan) 4411 Kingston Road	Gatineau	QC	Q2	0.78	1.1
(Morningside Crossing)	Toronto	ON	Q3	0.31	1.7
Nanaimo Conference Centre	Nanaimo	BC	Q3	0.36	4.0
Total				12.45	\$ 16.6

The Company sold four excess land parcels totalling 18.9 acres for gross proceeds of \$11.0 million resulting in a total gain of \$3.9 million. In addition, in 2008 the Company acquired an additional 25% interest in an existing land parcel for future development in exchange for \$1.6 million.

2008 Acquisition of Properties Held for Development

During 2008 the Company invested \$5.7 million in the acquisition of two properties held for development, comprising 9.5 acres of commercial land for future development, as set out in the table below.

Property Name	City	Province	Quarter Acquired	Acreage	Acquisition Cost (in millions)
Bowmanville A&P	Bowmanville	ON	Q1	1.72	\$ 2.7
1475 Huron Church	Windsor	ON	Q1	7.80	3.0
Total				9.52	\$ 5.7

2008 Development Activities

In 2008, the Company developed 835,300 square feet of retail space as detailed below.

Property Name	City	Province	Square Feet	Major Tenants
Development of new gross leasable area ⁽¹⁾				
Morningside Crossing ⁽²⁾	Toronto	ON	116,300	Shoppers Drug Mart, Food Basics, GoodLife Fitness, LCBO
Westmount Shopping Centre	Edmonton	AB	87,000	Home Depot
Carrefour St. Hubert ⁽²⁾	Longueuil	QC	78,800	Super C, SAQ, Remax, Purina Canada
Brantford Mall ⁽²⁾	Brantford	ON	67,100	Cineplex, LCBO
Barrymore Building ⁽²⁾	Toronto	ON	51,200	EMI Music Canada, West Elm
Centre Commercial Beaconsfield ⁽²⁾	Beaconsfield	QC	50,300	Metro, Royal Bank
Marche Du Vieux Longueuil ⁽²⁾	Longueuil	QC	39,000	Metro
McKenzie Towne Centre ⁽²⁾	Calgary	AB	29,400	GoodLife Fitness
Shoppes On Dundas ⁽²⁾	Oakville	ON	28,100	Shoeless Joe's
Grimsby Square Shopping Centre ⁽²⁾	Grimsby	ON	26,000	Shoppers Drug Mart, Mark's Work Wearhouse
Strandherd Crossing	Ottawa	ON	20,000	GoodLife Fitness
South Fraser Gate ⁽²⁾	Abbotsford	BC	17,800	Shoppers Drug Mart
Towerlane Mall ⁽²⁾	Airdrie	AB	17,800	TD Bank
Carrefour St. David ⁽²⁾	Quebec City	QC	14,400	McDonald's
Other space – various properties			97,600	
			740,800	
Redevelopment of existing gross leasable area				
Langley Crossing Shopping Centre ⁽²⁾	Langley	BC	19,000	Shoppers Home Health Care, Long & McQuade
Fairmount Shopping Centre	Calgary	AB	18,200	Sobeys
Steeple West Hill ⁽²⁾	Pickering	ON	18,200	Allstate, Shoppers Drug Mart
Westmount Shopping Centre	Edmonton	AB	17,900	Blockbuster, Smitty's Restaurant, Alberta Cancer Board
Airdrie Village Square ⁽²⁾	Airdrie	AB	8,600	
Other space – various properties			12,600	
			94,500	
Total			835,300	

⁽¹⁾ Includes new space created in redevelopment properties and greenfield developments.

⁽²⁾ Constructed in accordance with Leadership in Energy and Environmental Design (LEED) certificate guidelines.

The developed space, including redevelopment was 97.5% occupied when transferred to income-producing shopping centres at an average rental rate of \$19.70 per square foot. At December 31, 2008, the Company had 352 acres of land sites and parcels available for development.

	Number of Sites/Properties	Acreage ⁽¹⁾	Developable Square Feet ⁽¹⁾ (in thousands)	Net Book Value (in millions)
Development properties under construction	5	51.9	303.8	\$ 79.3
Redevelopment projects underway	7	54.4	305.9	59.3
Expansion projects underway	3	7.9	90.4	10.8
Properties held for development	8	108.8	1,012.5	45.7
Land parcels adjacent to/part of existing properties	25	103.1	991.2	70.2
Land parcels adjacent to/part of existing properties available for expansion	11	25.6	244.5	—
Other development related costs	—	—	—	16.7
Total	59	351.7	2,948.3	\$ 282.0

⁽¹⁾ Net of partners' interests.

Expenditures on Land and Shopping Centres under Development and Shopping Centres

Revenue sustaining and enhancing expenditures are as follows:

(thousands of dollars)	2009	2008 ⁽¹⁾
Expenditures on:		
Deferred leasing costs		
Revenue sustaining	\$ 2,999	\$ 2,783
Revenue enhancing	2,083	1,357
Other items and adjustments	(60)	(107)
	5,022	4,033
Shopping centres		
Revenue sustaining	10,846	9,083
Revenue enhancing	16,781	11,675
Property repositioning	550	1,004
Expenditures recoverable from tenants ⁽²⁾	7,102	4,397
Other items and adjustments	30	460
	35,309	26,619
Land and shopping centres under development	168,110	227,775
Total	\$ 208,441	\$ 258,427

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

⁽²⁾ Expenditures recoverable from tenants were previously included in other assets. See the "Summary of Changes to Significant Accounting Policies" section of this MD&A.

Revenue sustaining capital expenditures are expenditures required for maintaining shopping centre infrastructure and revenues from current leases. Typically, these expenditures range from \$0.50 to \$0.70 per square foot per annum over a longer term. Actual revenue sustaining expenditures per square foot over the past three years are as follows: 2007 – \$0.49; 2008 – \$0.60 and 2009 – \$0.68. During each of 2008 and 2009, the Company increased its expenditures on roof and parking lot replacements at several of its centres which will reduce its maintenance expenditures at these centres going forward.

Revenue enhancing and repositioning are those expenditures which increase the revenue generating ability of the Company's shopping centres. Management considers the potential effects on occupancy and future rents per square foot, development activities, the time leasable space has been vacant and other factors when assessing whether an expenditure is revenue enhancing or sustaining.

The Company's active development and property improvement initiatives improve the physical structures and appearance of its shopping centres. At December 31, 2009 the age of the Company's portfolio was as follows:

5 years or newer	6–10 years	11–15 years	16–20 years	Over 20 years
35%	28%	14%	9%	14%

Leasing and Occupancy

Changes in the Company's gross leasable area and occupancy are set out below:

	Total	Occupied		Under Redevelopment		Vacant		Rate
	Square Feet (thousands)	Square Feet (thousands)	%	Square Feet (thousands)	%	Square Feet (thousands)	%	Per Occupied Square Foot
December 31, 2008 ⁽¹⁾	20,166	19,448	96.4%	274	1.4%	444	2.2%	\$ 15.17
Tenant openings	—	493		—		(493)		18.89
Tenant closures	—	(632)		—		632		(16.37)
Closures for redevelopment	—	(174)		174		—		(16.34)
Net new leasing	—	(313)		174		139		—
Developments – coming on line	620	578		—		42		22.82
Redevelopments – coming on line	—	134		(134)		—		22.67
Demolitions	(168)	—		(140)		(28)		—
Dispositions	(66)	(49)		—		(17)		(4.04)
Reclassification	3	(3)		(31)		37		—
Total portfolio before acquisitions	20,555	19,795		143		617		15.53
Acquisitions	257	238		—		19		21.52
December 31, 2009	20,812	20,033	96.2%	143	0.7%	636	3.1%	\$ 15.71
Renewals	—	1,246		—		—		\$ 18.71
Renewals – expired	—	(1,246)		—		—		(16.54)
Net increase per square foot from renewals								\$ 2.17
% Increase on renewal of expiring rents								13.1%

⁽¹⁾ The Company has changed its method of recording GLA and occupied space to include tenants that are fixturing newly developed or redeveloped space and are not yet open. The December 31, 2008 figures have been restated to include this change.

For the year ended December 31, 2009, gross new leasing including development and redevelopment space totalled 1.2 million square feet. Renewal leasing totalled 1.2 million square feet with a 13.1% increase over expiring lease rates.

The average rate per occupied square foot at December 31, 2009 increased to \$15.71. This compares to an average rate of \$15.17 per square foot at December 31, 2008 and \$15.54 at September 30, 2009.

Portfolio occupancy at December 31, 2009 of 96.2% compares to 96.0% at September 30, 2009 and 96.4% at December 31, 2008. Closures for redevelopment totalled 174,000 square feet for 2009 providing potential for future income growth through leasing and redevelopment activities.

Equity One, Inc. (“Equity One”)

(thousands of dollars, except per share and other data) ⁽¹⁾	2009	2008
% Ownership as at December 31	—	18.5%
Investment in Equity One, Inc. (Cdn\$) as at December 31	\$ —	\$ 227,259
Funds from operations from Equity One, Inc. (Cdn\$) ⁽²⁾	\$ 15,009	\$ 20,005
Funds from operations from Equity One, Inc. (US\$) ⁽²⁾	\$ 12,631	\$ 18,919
Dividends from Equity One (Cdn\$)	\$ 12,452	\$ 18,193
Dividends from Equity One (US\$)	\$ 10,514	\$ 16,809
Average exchange on dividends (US\$ to Cdn\$)	1.18	1.08
Equity One dividends per common share (Cdn\$)	\$ 0.89	\$ 1.28
Equity One dividends per common share (US\$)	\$ 0.75	\$ 1.20

⁽¹⁾ Current year amounts cover period to August 14, 2009.

⁽²⁾ Excludes the Company's share of Equity One's non-cash impairment loss in 2008.

On August 14, 2009, First Capital Realty completed the dividend-in-kind of the Company's interest in Gazit America Inc. (formerly known as First Capital America Holding Corp.) ("Gazit America"). Gazit America is a Canadian company that, indirectly, owns shares in Equity One (approximately 14.1 million shares), the debt secured by the Equity One shares (approximately US\$100 million) and certain other liabilities, including subordinated debt owing to First Capital Realty in the amount of approximately US\$36 million. As a result of this dividend-in-kind, First Capital Realty no longer has any ownership interest in Equity One. Equity One is a United States REIT traded on the New York Stock Exchange ("NYSE") under the ticker symbol EQY.

Gazit America Inc. had an initial fair value of \$41.5 million or \$0.45 per First Capital Realty common share on August 14, 2009. Under relevant accounting rules, the dividend has been recorded at the carrying value of the assets and liabilities transferred, adjusted for accumulated other comprehensive income. Note 7 to the annual financial statements for 2009 contains a complete reconciliation of the carrying amounts. The carrying value of the dividend was adjusted in the fourth quarter of 2009 when Equity One announced the final taxable percentage of its dividends for 2009, and when the Company completed its final future income tax calculations for the year ended December 31, 2009.

Loans, mortgages and other real estate assets

(thousands of dollars)	2009	2008
Non-revolving term loan receivable from Gazit America Inc. (a)	\$ 37,836	\$ —
Investments in marketable securities (b)	7,979	22,788
Vendor-take-back mortgage (c)	2,300	—
Other loans receivable (d)	11,105	9,692
	\$ 59,220	\$ 32,480

(a) The non-revolving unsecured term loan receivable from Gazit America Inc. in the amount of US\$36.0 million, bears interest at 8.5% per annum calculated semi-annually, payable quarterly and is due June 19, 2014, subject to Gazit America Inc.'s option to extend the maturity date for a further five-year period. The principal amount of the loan is prepayable from and after August 14, 2012.

(b) The Company invests from time to time in the securities of public real estate entities. These securities are recorded at market value. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income, while unrealized gains and losses on securities held-for-trading are recorded in net income.

During the year ended December 31, 2009, the Company sold 3,233,200 units of Allied Properties REIT ("Allied") and recorded a gain on disposition of the units of \$7.7 million. This gain includes the amount of the Allied distributions that were recorded as a return of capital for accounting purposes of \$2.5 million. The gain based upon the difference between the sale proceeds and the original cost of the units was \$5.2 million. Subsequent to year-end the Company has sold the remaining 220,000 units of Allied at a weighted average selling price of \$19.18 for gross proceeds of \$4.2 million.

(c) The vendor-take-back mortgage obtained on the sale of a shopping centre bears interest at 7% per annum, payable monthly and is due on January 1, 2011.

(d) Other loans receivable primarily consist of loans to co-owners on development properties, which bear a weighted average interest rate of 6.9% at December 31, 2009 and are secured by the co-owners' interest in the property.

RESULTS OF OPERATIONS

Funds from Operations and Adjusted Funds from Operations

In Management's view, funds from operations ("FFO") and adjusted funds from operations ("AFFO") are commonly accepted and meaningful indicators of financial performance in the real estate industry. First Capital Realty believes that financial analysts, investors and shareholders are better served when the clear presentation of comparable period operating results generated from FFO and AFFO disclosures supplement Canadian generally accepted accounting principles ("GAAP") disclosure. These measures are the primary methods used in analyzing real estate organizations in Canada. The Company's method of calculating FFO and AFFO may be different from methods used by other corporations or REITs (real estate investment trusts) and, accordingly, may not be comparable to such other corporations or REITs. FFO and AFFO are presented to assist investors in analyzing the Company's performance. FFO and AFFO: (i) do not represent cash flow from operating activities as defined by GAAP, (ii) are not indicative of cash available to fund all liquidity requirements, including payment of dividends and capital for growth and (iii) are not to be considered as alternatives to GAAP net income for the purpose of evaluating operating performance.

Funds from Operations ("FFO")

First Capital Realty calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). The definition is meant to standardize the calculation and disclosure of FFO across real estate entities in Canada, modelled on the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT") in the United States. FFO as defined by RealPac differs in two respects from the definition adopted by NAREIT. Under the RealPac definition, future income taxes are excluded from FFO, whereas under the NAREIT definition, they are included. In addition, impairment losses on depreciable assets are excluded from the RealPac FFO definition, whereas the NAREIT definition includes them. As a result, when calculating FFO, the Company adjusts the FFO reported by Equity One to comply with the RealPac definition, when appropriate.

FFO is considered a meaningful additional measure of operating performance, as it excludes amortization of real estate assets. Amortization expense assumes that the value of real estate assets diminishes predictably over time, which is clearly not a valid assumption. FFO also adjusts for certain items included in GAAP net income that may not be the most appropriate determinants of the long-term operating performance of the Company including gains and losses on depreciable real estate assets.

Funds from Operations

The Company's GAAP net income is reconciled to funds from operations below:

(thousands of dollars)	2009	2008 ⁽¹⁾
Net income for the year	\$ 41,913	\$ 37,341
Add (deduct):		
Amortization of shopping centres, deferred leasing costs and intangible assets	94,501	85,585
Gain on disposition of income-producing shopping centres	(737)	(1,631)
Equity income from Equity One ⁽²⁾	(7,066)	(8,716)
Funds from operations from Equity One ⁽²⁾	15,009	12,502
Future income taxes	7,700	16,264
FFO	151,320	141,345
Add: the Company's share of Equity One's non-cash impairment loss	—	7,503
Add (deduct): dilution loss (gain) on Equity One investment	676	(2,898)
FFO excluding dilution loss on Equity One investment and the Company's share of Equity One's non-cash impairment loss	\$ 151,996	\$ 145,950

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

⁽²⁾ Current year amounts cover period to August 14, 2009. See discussion of dividend-in-kind in the "Equity One, Inc." section of this MD&A.

The components of FFO are:

(thousands of dollars)	2009			2008 ⁽¹⁾		
	FFO – Core Operations	FFO – EQY and Other Non-recurring Items	Total FFO	FFO – Core Operations	FFO – EQY and Other Non-recurring Items	Total FFO
Net operating income	\$ 285,177	\$ —	\$ 285,177	\$ 261,040	\$ —	\$ 261,040
Interest expense – Canadian operations	(120,101)	—	(120,101)	(105,541)	—	(105,541)
Interest expense – US operations	—	(5,364)	(5,364)	—	(8,144)	(8,144)
Corporate expense	(22,122)	—	(22,122)	(21,577)	—	(21,577)
Interest and other income	5,612	—	5,612	1,559	—	1,559
Other (losses) gains and (expenses) ⁽²⁾	—	(1,475)	(1,475)	—	2,752	2,752
Funds from operations from Equity One ⁽³⁾	—	15,009	15,009	—	20,005	20,005
Amortization of non-real estate assets	(4,207)	—	(4,207)	(2,159)	—	(2,159)
Current income taxes	—	(533)	(533)	—	(1,985)	(1,985)
FFO excluding Equity One's non-cash impairment loss and dilution (loss) gain on Equity One investment	144,359	7,637	151,996	133,322	12,628	145,950
Add: the Company's share of Equity One's non-cash impairment loss	—	—	—	—	(7,503)	(7,503)
Add: Dilution (loss) gain on Equity One investment	—	(676)	(676)	—	2,898	2,898
FFO	\$ 144,359	\$ 6,961	\$ 151,320	\$ 133,322	\$ 8,023	\$ 141,345
FFO per diluted share excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	\$ 1.54	\$ 0.08	\$ 1.62	\$ 1.53	\$ 0.14	\$ 1.67
Add: the Company's share of Equity One's non-cash impairment loss	—	—	—	—	(0.09)	(0.09)
Add: Dilution (loss) gain on Equity One investment	—	(0.01)	(0.01)	—	0.04	0.04
FFO per diluted share	\$ 1.54	\$ 0.07	\$ 1.61	\$ 1.53	\$ 0.09	\$ 1.62
Weighted average diluted shares – FFO	93,868,815	93,868,815	93,868,815	87,260,224	87,260,224	87,260,224

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

⁽²⁾ Excludes gains on disposition of income-producing real estate.

⁽³⁾ Current year amounts cover period to August 14, 2009. See discussion of dividend-in-kind in the "Equity One, Inc." section of this MD&A.

The Company's funds from operations – core operations for the year ended December 31, 2009 totalled \$144.4 million or \$1.54 per diluted common share which compares to \$133.3 million or \$1.53 per diluted common share for the year ended December 31, 2008. FFO – core operations, was positively affected by same property NOI growth and the effect of acquisitions and development coming on line. This was partially offset by increased interest and amortization expense. The increase in interest and amortization expense is primarily attributed to the increased cost of the new secured revolving credit facilities. The increased credit facility costs were only partially offset by the effect of the reduced interest rate environment. In addition, the number of weighted average shares outstanding increased by 7.6% over the prior year.

FFO – EQY and other non-recurring items includes the effect of Equity One and its related interest expense, current income taxes arising from the Company's US operations and other gains and losses. For the year ended December 31, 2009, FFO – EQY and other non-recurring items totalled \$7.6 million or \$0.08 per diluted common share which compares to \$12.6 million or \$0.14 per diluted common share in the prior year. FFO – EQY and other non-recurring items included the results of Equity One up to August 14, 2009 compared to 2008 which included the results for the full year.

Adjusted Funds from Operations (“AFFO”)

Management views AFFO as an effective measure of cash generated from operations. AFFO for the year ended December 31, 2009 totalled \$151.8 million or \$1.48 per diluted common share compared to \$140.7 million or \$1.47 per diluted common share in the prior year. AFFO is calculated by adjusting FFO for actual costs incurred for capital expenditures and leasing costs for maintaining shopping centre infrastructure, current lease revenues, and non-cash items including straight-line and market rent adjustments, non-cash compensation expenses, interest paid in shares, and gains or losses on debt and hedges. Land sales are excluded from AFFO. The Company’s proportionate share of Equity One FFO is excluded and only the regular cash dividends received are included in AFFO. The weighted average diluted shares outstanding for AFFO is adjusted to assume conversion of the outstanding convertible debentures. Non-recurring AFFO items primarily consists of dividends from Equity One, net of the associated interest expense, realized gains on marketable securities, cash severance costs and the costs associated with the acquisition of 40% of FCB that the Company did not already own.

(thousands of dollars, except per share amounts)	2009			2008 ⁽¹⁾		
	AFFO – Core Operations	AFFO – EQY and Other Non- recurring Items	Total AFFO	AFFO – Core Operations	AFFO – EQY and Other Non- recurring Items	Total AFFO
FFO excluding dilution loss on Equity One investment and the Company’s share of Equity One’s non-cash impairment loss	\$ 144,359	\$ 7,637	\$ 151,996	\$ 133,322	\$ 12,628	\$ 145,950
Add/(deduct):						
Interest expense payable in shares	15,342	—	15,342	14,031	—	14,031
Rental revenue recorded on a straight-line basis and market rent adjustments	(7,376)	—	(7,376)	(7,627)	—	(7,627)
Non-cash compensation expense	3,609	600	4,209	3,899	—	3,899
Revenue sustaining capital expenditures and leasing costs ⁽³⁾	(12,171)	—	(12,171)	(11,866)	—	(11,866)
Funds from operations from Equity One excluding non-cash impairment loss ⁽²⁾	—	(15,009)	(15,009)	—	(20,005)	(20,005)
Dividends from Equity One (regular)	—	12,452	12,452	—	18,193	18,193
Return of capital portion of marketable securities – net	(299)	—	(299)	623	—	623
Change in cumulative unrealized (gain) loss on marketable securities	—	(1,952)	(1,952)	—	1,638	1,638
Loss (gain) on extinguishment of debt	—	2,394	2,394	—	(438)	(438)
Realized losses on termination of hedges	—	1,160	1,160	—	290	290
Unrealized losses on interest rate swaps not designated as hedges	—	1,203	1,203	—	—	—
Gain on disposition of land	—	(118)	(118)	—	(3,945)	(3,945)
AFFO	\$ 143,464	\$ 8,367	\$ 151,831	\$ 132,382	\$ 8,361	\$ 140,743
AFFO per diluted share	\$ 1.40	\$ 0.08	\$ 1.48	\$ 1.38	\$ 0.09	\$ 1.47
Weighted average diluted shares – AFFO⁽⁴⁾	102,934,634	102,934,634	102,934,634	95,586,511	95,586,511	95,586,511

(1) Prior year comparative figures have been restated for a change in accounting standards.

(2) Current year amounts cover period to August 14, 2009. See discussion of dividend-in-kind in the “Equity One Inc.” section of this MD&A.

(3) Estimated at \$0.60 per square foot per annum on average gross leasable area for 2009 (\$0.50 per square foot per annum in 2008).

(4) Includes the weighted average outstanding shares that would result from the conversion of the convertible debentures.

A reconciliation from cash provided by operating activities (a GAAP measure) to AFFO is presented below:

(thousands of dollars)	2009	2008 ⁽¹⁾
Cash provided by operating activities	\$ 148,628	\$ 147,519
Realized gains (losses) on sale of marketable securities	4,242	(212)
Dividend income – return of capital portion	(299)	623
Deferred leasing costs	5,022	4,033
Net change in non-cash operating items	6,592	1,994
Amortization of other assets	(2,005)	(1,305)
Amortization of financing fees	(2,202)	(854)
Interest paid in excess of coupon interest on assumed mortgages	1,189	1,436
Debenture interest in excess of coupon	(984)	(864)
Other non-cash interest expense	(2,769)	(2,466)
Settlement of restricted share units	2,463	1,275
Settlement of deferred share units	514	–
Loss on foreign currency exchange	(278)	–
Realized losses on termination of hedges	1,160	290
Convertible debenture interest paid in common shares	(12,613)	(12,891)
Convertible debenture interest payable in common shares	15,342	14,031
Revenue sustaining capital expenditures and leasing costs	(12,171)	(11,866)
AFFO	\$ 151,831	\$ 140,743

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

Net Operating Income (“NOI”)

NOI is defined as property rental revenue less property operating costs. In Management’s opinion, NOI is useful in analyzing the operating performance of the Company’s shopping centre portfolio. NOI is not a measure defined by GAAP and as such there is no standard definition. As a result, NOI may not be comparable with similar measures presented by other entities. NOI is not to be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP.

(thousands of dollars)	% increase	2009	2008 ⁽¹⁾
Same property NOI excluding expansion and redevelopment	2.7%	\$ 239,834	\$ 233,463
Expansion and redevelopment space NOI		22,125	11,803
Same property NOI with expansion and redevelopment	6.8%	261,959	245,266
Greenfield development		10,774	7,119
2009 Acquisitions		1,668	–
2008 Acquisitions		3,374	1,376
Rental revenue recognized on a straight-line basis		5,053	5,374
Market rent adjustments		2,323	2,253
Dispositions and other		26	(348)
NOI		\$ 285,177	\$ 261,040
Property rental revenue		\$ 442,131	\$ 410,192
Property operating costs		156,954	149,152
NOI		\$ 285,177	\$ 261,040
NOI Margin		64.5%	63.6%

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

Same properties in the table above refer to those shopping centres that were owned by the Company on January 1, 2008, and throughout 2008 and 2009.

Net operating income for the year ended December 31, 2009 totalled \$285.2 million, compared to \$261.0 million for the year ended December 31, 2008, an increase of \$24.2 million or 9.3%. Same property NOI increased by 6.8% in 2009, compared to the same prior year period, generating NOI growth of \$16.7 million, primarily attributed to redevelopment and expansion space coming on line, lease termination payments and increases in lease rates and occupancy. Same property NOI for the year, excluding expansion or redevelopment space, increased by \$6.4 million or 2.7% over the same prior year period.

Acquisitions completed in 2009 and 2008 contributed \$5.0 million to NOI in 2009, while greenfield development activities contributed a further \$10.8 million in 2009.

The lease termination fees for the year ended December 31, 2009 are from three tenants (two are non-retail tenants) at separate locations where 94,500 square feet with an annualized NOI of \$1.5 million was vacated. 20,200 square feet has been re-leased replacing one half of the total NOI. A further 11,500 square feet was leased subsequent to year-end. The Company is currently negotiating the lease up of the remaining space.

Equity One

As discussed under "Equity One, Inc." above, on August 14, 2009, First Capital Realty completed its dividend-in-kind of the Company's interest in Gazit America Inc. (formerly known as First Capital America Holding Corp.) ("Gazit America"). As a result of this dividend-in-kind, First Capital Realty no longer has an ownership interest in Equity One. First Capital Realty has a non-revolving term loan receivable in the amount of US\$36 million, bearing interest at 8.5% per annum calculated semi-annually, payable quarterly and due June 19, 2014. During 2009, the Company recorded \$1.2 million of interest income in respect of this loan.

The Company recorded dividends from Equity One of US\$10.5 million or US\$0.75 per share in 2009 compared to US\$16.8 million or US\$1.20 per share in the year ended December 31, 2008. The Canadian dollar equivalent of these dividends was \$12.5 million and \$18.2 million in the comparative periods of 2009 and 2008, respectively through the dividend date of August 14, 2009.

The Company's share of Equity One's net earnings, adjusted to Canadian GAAP, net of a provision for future tax on the undistributed earnings of Equity One, is recorded as equity income. Equity One acquired a controlling interest in DIM N.V. during the first quarter of 2009. During the year ended December 31, 2009, Equity One income included gains of US\$12.4 million recorded on the buyback. The Company's share of the gains amounts to approximately US\$2.2 million through the dividend date of August 14, 2009.

During 2008 and 2009, Equity One issued additional common shares which reduced the Company's interest in Equity One from approximately 19% on January 1, 2008 to approximately 16% immediately before the dividend-in-kind on August 14, 2009. As a result, the Company recorded a dilution loss of \$0.7 million in 2009, and a dilution gain of \$2.9 million in 2008.

Interest and Other Income

(thousands of dollars)	2009	2008 ⁽¹⁾
Interest income from non-revolving term loan receivable from Gazit America Inc.	\$ 1,247	\$ —
Interest, dividend and distribution income from marketable securities and cash investments	3,788	1,020
Interest income from development loans	577	539
	\$ 5,612	\$ 1,559

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

Interest and other income increased during 2009 due to distributions arising from the ownership of Allied REIT units described under the "Loans, Mortgages and Other Real Estate Assets" section of this MD&A and the interest income from the term loan receivable from Gazit America Inc.

Other Gains (Losses) and (Expenses)

(thousands of dollars)	2009	2008
Realized gains (losses) on sale of marketable securities	\$ 4,242	\$ (212)
Change in cumulative unrealized gains (losses) on marketable securities held-for-trading	1,952	(1,766)
Dilution (loss) gain on investment in Equity One, Inc	(676)	2,898
(Loss) gain on settlement of debt (a)	(2,394)	438
Gain on disposition of shopping centres	737	1,631
Gains on disposition of land	118	3,945
Gain on termination of hedge previously held in other comprehensive income	290	—
Realized losses on interest rate swaps (b)	(1,450)	—
Unrealized losses on interest rate swaps not designated as hedges (c)	(1,203)	—
Loss on foreign currency exchange	(278)	—
Severance and termination costs	(2,000)	—
Costs related to acquisition of 40% interest in FCB	(752)	—
Other income	—	347
	\$ (1,414)	\$ 7,281

- (a) During the three months ended March 31, 2009, the Company expensed \$0.7 million of deferred financing costs related to its \$350 million senior unsecured revolving credit facility, which was replaced with a \$450 million secured revolving credit facility. On November 24, 2009, the Company reduced the availability of the secured revolving credit facility by \$75 million to \$375 million. As a result, \$0.5 million of unamortized deferred financing costs were recorded as a loss on settlement of debt. On December 30, 2009, the Company further reduced the availability of the secured revolving credit facility by \$90 million to \$285 million. As a result, \$1.0 million of unamortized deferred financing costs were recorded as a loss on settlement of debt. Subsequent to December 31, 2009, the Company further reduced the availability of the secured revolving credit facility by \$35 million to \$250 million. As a result, \$0.3 million of unamortized deferred financing costs will be recorded as a loss on settlement of debt in 2010. Also, subsequent to December 31, 2009, the Company reduced the \$75 million secured revolving credit facility to \$50 million which resulted in \$0.2 million of unamortized deferred financing costs being recorded as a loss on settlement of debt in 2010.
- (b) The Company terminated \$20 million notional amount of Canadian B.A. based interest rate swaps on December 22, 2009 resulting in a loss of \$1.45 million.
- (c) As a result of the Company substantially paying off its Canadian credit facilities, a loss of \$1.2 million was recorded on its remaining \$100 million notional Canadian B.A. interest swaps reflecting the termination of the hedging relationship.

Interest Expense

(thousands of dollars)	2009	2008
Mortgages, loans and credit facilities		
Canadian operations	\$ 90,537	\$ 78,658
Secured by investment in Equity One ⁽¹⁾	3,222	7,765
	93,759	86,423
Senior unsecured debentures	32,541	31,887
Convertible debenture interest paid in common shares of the Company	14,837	13,632
Amortization of deferred financing and deferred issue costs	2,769	2,466
Interest capitalized to land and shopping centres under development	(18,441)	(20,723)
Total interest expense	\$ 125,465	\$ 113,685

⁽¹⁾ Current year amounts cover period to August 14, 2009. See discussion of dividend-in-kind in the "Equity One, Inc." section of this MD&A.

Interest expense on mortgages, loans and credit facilities increased by \$7.3 million to \$93.8 million in 2009 over the prior year primarily due to:

- The completion of the new \$450 million secured credit facility in March 2009. The interest rate on the new credit facility is B.A. plus 350 basis points compared to B.A. plus 110 basis points on the previous unsecured credit facility; and
- Higher average levels of borrowings than the prior year to finance acquisition and development activities; offset by
- The effect of the dividend-in-kind on August 14, 2009. After this date, the Company no longer has interest expense associated with borrowings secured by the investment in Equity One.

The increase in interest expense from Senior Unsecured Debentures is due to the issuance on November 20, 2009 of \$125 million aggregate principal amount of 5.95% Series G senior unsecured debentures.

The increase in convertible debenture interest expense is due to the interest on the \$75 million of par value 6.25% convertible unsecured subordinated debentures issued on September 18, 2009.

On February 18, 2010, the Company announced that it will pay the interest due on March 31, 2010 to holders of both classes of its 5.50% convertible unsecured subordinated debentures maturing September 30, 2017 and to holders of its 6.25% convertible unsecured subordinated debentures maturing December 31, 2016 by the issuance of common shares. The number of common shares to be issued per \$1,000 principal amount of debentures will be calculated by dividing the dollar amount of interest payable by an amount equal to 97% of the volume-weighted average trading price of the common shares of First Capital Realty on the Toronto Stock Exchange, calculated for the 20 consecutive trading days ending on March 24, 2010. The interest payment due is approximately \$8.7 million.

It is the current intention of the Company to satisfy its obligations to pay principal and interest on its convertible debentures by the issuance of common shares. Since issuance, all interest payments have been made using common shares.

Corporate Expenses

(thousands of dollars)	2009	2008
Salaries, wages and benefits	\$ 16,559	\$ 16,970
Non-cash compensation	3,609	3,899
Other general and administrative costs	8,112	7,254
Capital taxes, net of recoveries from tenants	1,022	1,188
Abandoned transaction costs	1,072	1,133
Amounts capitalized to properties under development and deferred leasing costs	(8,252)	(8,867)
	\$ 22,122	\$ 21,577

(thousands of dollars)	2009	2008
Corporate expenses, excluding capital taxes and non-cash compensation	\$ 17,491	\$ 16,490
As a percent of rental revenue	4.0%	4.0%
As a percent of gross total assets	0.4%	0.4%

Non-cash compensation is recognized over the respective vesting periods for options, restricted share units and deferred share units. These items are considered part of the total compensation for directors, senior management, other team members and periodically to select service providers to the Company.

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 the Company's internal leasing staff are capitalized to deferred leasing costs and amortized over the lives of the related leases. Amounts capitalized to real estate investments for properties undergoing development or redevelopment and leasing costs (including leasing for development projects) during the year ended December 31, 2009 totalled \$8.3 million compared to \$8.9 million in the prior year comparative period. Amounts capitalized are based on specific leasing activities and development projects underway. The decrease in capitalized costs in 2009 compared to 2008 is due to gross corporate expenses being lower in 2009.

Amortization Expense

(thousands of dollars)	2009	2008 ⁽¹⁾
Shopping centres	\$ 83,342	\$ 74,406
Deferred leasing costs	3,662	3,396
Intangible assets	7,497	7,783
Amortization of real estate assets	94,501	85,585
Deferred financing fees	2,202	854
Other assets	2,005	1,305
Total amortization	\$ 98,708	\$ 87,744

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

Amortization of real estate assets increased due to the amortization of newly acquired properties and development coming on line. Amortization of deferred financing costs increased as a result of the Company's secured \$450 million credit facility which was completed in March of 2009.

Income Taxes

(thousands of dollars)	2009	2008
Current income taxes	\$ 533	\$ 1,985
Future income taxes	7,700	16,264
Income taxes	\$ 8,233	\$ 18,249

The total income tax expense has decreased compared to 2008 primarily due to a decrease in net income before taxes and a change in the substantively enacted future income tax rate.

Net Income

(thousands of dollars, except per share amounts)	2009	2008 ⁽¹⁾
Net income	\$ 41,913	\$ 37,341
Earnings per share (diluted)	\$ 0.45	\$ 0.43
Weighted average common shares – diluted	93,868,815	87,260,224

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

Net income for the year ended December 31, 2009 was \$41.9 million or \$0.45 per share (basic and diluted) compared to \$37.3 million or \$0.43 per share (basic and diluted) for the year ended December 31, 2008. The increase in net income is primarily due to the increase in NOI resulting from development projects coming on line and same property NOI growth, increased interest and other income, offset by increased interest expense, increased amortization expense and decreased other gains (losses) and (expenses) and decreased income from Equity One as a result of the dividend-in-kind. In addition, there was an increase in the basic and weighted average diluted shares outstanding compared to the same prior year period.

CAPITAL STRUCTURE AND LIQUIDITY**Capital Employed**

(thousands of dollars)	2009	2008
Equity capitalization (end of year)		
Common stock outstanding	96,045,394	90,002,581
Diluted common stock ⁽¹⁾	96,630,311	90,549,743
Mortgages, loans and credit facilities	\$ 1,354,668	\$ 1,573,530
Senior unsecured debentures (principal amount)	720,799	597,000
Convertible debentures (principal amount)	351,750	233,000
Equity market capitalization (common shares at market value, based on closing share price of \$21.66 (2008 – \$18.97))	2,080,343	1,707,349
Total capital employed	\$ 4,507,560	\$ 4,110,879
Debt to aggregate assets ⁽²⁾	50.3%	53.5%
Debt to total market capitalization ⁽²⁾	45.9%	52.6%
Weighted average interest rate on fixed rate debt and senior unsecured debentures	5.98%	5.92%
Weighted average maturity on mortgages, credit facilities and senior unsecured debentures (years)	4.4	5.2

⁽¹⁾ Includes effect of all dilutive securities except convertible debentures.

⁽²⁾ Calculated, on a trailing basis, in accordance with the unsecured debentures indenture definitions for the year.

The real estate business is capital-intensive by nature. The Company's capital structure is key to financing growth and providing sustainable cash dividends to shareholders. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that First Capital Realty's blend of debt, convertible debentures and equity in its capital base provides stability and reduces risks, while generating an acceptable return on investment, taking into account the long-term business strategy of the Company.

In 2007, the Dominion Bond Rating Service Ltd. ("DBRS") provided First Capital Realty with a credit rating upgrade to BBB with a stable trend from the previous rating of BBB (low) with a stable trend relating to the senior unsecured debentures. The Company received its initial credit rating of BBB- in May 2005, from DBRS. A credit rating in the BBB category is generally an indication of adequate credit quality as defined by DBRS. In 2006, Moody's Investor Services, Inc. ("Moody's") provided First Capital Realty with a credit rating of Baa3, with a stable outlook relating to the senior unsecured debentures. As defined by Moody's, a credit rating of Baa3 denotes that these debentures are subject to moderate credit risk and are of medium grade and, as such, may possess certain speculative characteristics. A rating outlook, expressed as positive, stable, negative or developing, provides the respective rating agencies' opinion regarding the outlook for the rating in question over the medium term. DBRS and Moodys have provided updates in 2009 at these same investment grade ratings. The credit ratings assigned are not recommendations to purchase, hold or sell these debentures. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by either or both Moodys or DBRS at any time.

During the latter half of 2007 and throughout 2008 and first half of 2009, the unsecured credit markets were severely constrained. Consequently, Management shifted the Company's financing strategy to focus on secured financing. The Company's substantial pool of unencumbered assets and strong balance sheet enabled the Company to access the secured financing markets during this period. Within the mortgage financing market, conditions were challenging during this period as well, with spreads widening significantly, and the conduit market effectively closing down. The increased spreads were largely offset by decreases in the underlying Government of Canada bond reference yields.

In 2009, the Company completed \$187.3 million of secured financing on 13 properties at a weighted average rate of 6.21% and a weighted average term of 8.5 years. This compares to \$154.7 million on eight properties in 2008 at a weighted average rate of 5.54% and a weighted average term of 7.5 years.

In the second half of 2009, the unsecured credit markets improved, and the Company completed the issuance of \$125 million principal amount senior unsecured debentures in November, and issued a further \$125 million subsequent to December 31, 2009.

On March 5, 2009, the Company closed on a three-year, \$450 million secured revolving credit facility with a syndicate of ten banks led by RBC Capital Markets, TD Securities and BMO Capital Markets maturing March 2012. The new facility was used to replace the Company's three-year \$350 million senior unsecured revolving credit facility maturing March, 2010. The interest rate on the new secured facility is at banker's acceptances ("B.A.") plus 350 basis points compared to B.A. plus 110 basis points on the previous unsecured facility. On November 24, 2009, the Company reduced the secured revolving credit facility by \$75 million and on December 30, 2009 further reduced the facility by \$90 million. The Company also completed a three-year \$75 million secured revolving credit facility with the Bank of Nova Scotia with the same terms as the \$450 million syndicated facility.

During 2009 and in January 2010, the Company raised a total of \$477.4 million from the issuance of senior unsecured debentures, convertible debentures, common shares and warrants as described under the appropriate headings below. These financings along with other financings currently underway, address substantially all of the contractual 2010 and 2011 debt maturities and contractual committed costs to complete on current development projects.

The Company will also continue to use its substantial pool of unencumbered assets to raise secured financing or unsecured financing to fund its growth. Where it is deemed appropriate, the Company will use its equity as a source of financing and may strategically sell non-core assets to best deploy capital and take advantage of opportunities in the market.

Consolidated Debt and Principal Amortization Maturity Profile

(thousands of dollars)	Mortgages	Cdn Credit Facilities	Senior Unsecured Debentures ⁽¹⁾	Total	% Due
2010	\$ 153,564	\$ —	\$ —	\$ 153,564	7.4%
2011	95,550	—	198,799	294,349	14.2%
2012	157,161	42,636	100,000	299,797	14.4%
2013	181,666	—	97,000	278,666	13.4%
2014	236,950	—	200,000	436,950	21.0%
2015	184,687	—	125,000	309,687	14.9%
2016	59,657	—	—	59,657	2.9%
2017	28,650	—	—	28,650	1.4%
2018	91,759	—	—	91,759	4.4%
2019	118,301	—	—	118,301	5.7%
Thereafter	6,646	—	—	6,646	0.3%
Add: unamortized deferred financing costs and premium and discounts, net	(2,559)	—	(3,759)	(6,318)	—
	\$ 1,312,032	\$ 42,636	\$ 717,040	\$ 2,071,708	100.0%

⁽¹⁾ The covenants on the unsecured debentures include the requirement that unencumbered assets are equal to or greater than 1.30 times the gross book value of the outstanding debentures. This pool of unencumbered assets provides the Company with financing flexibilities on maturity of the debentures.

Mortgages, Loans and Credit Facilities

The changes in the book value of the Company's mortgages, loans and credit facilities during the year ended December 31, 2009 are set out below:

(thousands of dollars)	Fixed Rate Mortgages	Weighted Average Interest Rate	Secured Term Loans and Credit Facilities	Weighted Average Interest Rate	Unsecured Revolving Credit Facilities	Weighted Average Interest Rate	Total
Balance, December 31, 2008	\$ 1,210,568	6.21%	\$ 153,772	5.31%	\$ 209,190	2.96%	\$ 1,573,530
Additional borrowings, net of issue costs	188,878		326,305		106,025		621,208
Assumed mortgages on acquisition of shopping centres	7,378		—		—		7,378
Vendor-take-back mortgage	500		—		—		500
Repayments	(62,277)		(545,818)		(77,835)		(685,930)
Replacement of unsecured facility with secured facility	—		237,380		(237,380)		—
Principal instalment payments	(32,995)		(5,922)		—		(38,917)
Dividend-in-kind transaction	—		(113,404)		—		(113,404)
Effects of US dollar exchange rate and other changes ⁽¹⁾	(20)		(9,677)		—		(9,697)
Balance, December 31, 2009	\$ 1,312,032	6.18%	\$ 42,636	3.94%	\$ —	—%	\$ 1,354,668

⁽¹⁾ Includes amortization of issue costs, premiums and discounts.

At December 31, 2009, 96.9% (2008 – 84.0%) of the outstanding mortgage, loan and credit facility liabilities bore interest at fixed interest rates. The fixed mortgage rates provide an effective matching for rental income from leases, which typically have fixed terms ranging from five to ten years, and incremental contractual rent steps during the term of the lease.

The Company had fixed rate mortgages outstanding, as at December 31, 2009, in the aggregate amount of \$1.3 billion as compared to \$1.2 billion at the end of 2008. The increase in the outstanding balance is the net result of \$0.2 million in new financings primarily from new mortgage financing and top-up financing on existing properties with mortgages offset by \$0.1 million in principal amortization and repayments. The average remaining term of the mortgages outstanding has declined from 5.2 years at December 31, 2008 to 4.9 years at December 31, 2009.

The Company has the flexibility under its secured credit facility to draw funds based on bank prime rates, bankers' acceptances, LIBOR-based advances or US prime for US dollar-denominated borrowings or Euro dollars. The bankers' acceptances plus 350 basis points currently provide the Company with the least costly means of borrowing under this credit facility. The credit facility is being used primarily to finance acquisition, development and redevelopment activities and for general corporate purposes.

Mortgage Maturity and Lender Type Profile

(thousands of dollars)	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Interest Rate	Breakdown of Mortgage Maturities by Type of Lender		
					Percent with Banks	Percent with Conduits	Percent with Insurance Co's and Pension Funds
2010	\$ 33,671	\$ 119,893	\$ 153,564	5.74%	17.4%	17.3%	65.3%
2011	32,378	63,172	95,550	7.15%	8.7%	66.5%	24.8%
2012	30,215	126,946	157,161	6.71%	1.5%	56.4%	42.1%
2013	27,520	154,146	181,666	6.35%	3.6%	45.6%	50.8%
2014	21,344	215,606	236,950	6.30%	6.9%	49.9%	43.2%
2015	13,634	171,053	184,687	5.40%	—	46.3%	53.7%
2016	9,988	49,669	59,657	5.52%	23.8%	13.9%	62.3%
2017	9,416	19,234	28,650	5.85%	7.0%	—	93.0%
2018	6,706	85,053	91,759	6.20%	—	—	100.0%
2019	3,093	115,208	118,301	6.56%	29.8%	—	70.2%
Thereafter	6,646	—	6,646	6.20%	—	—	—
Total	\$ 194,611	\$ 1,119,980	\$ 1,314,591	6.18%	8.6%	35.6%	55.8%

The Company's strategy is to manage its long-term debt by staggering maturity dates in order to mitigate short-term volatility in the debt markets. At December 31, 2009, the Company had mortgages, loans and credit facilities aggregating \$153.6 million coming due in 2010. Maturing amounts are comprised of \$119.9 million of mortgages at an average interest rate of 5.74% and \$33.7 million of scheduled amortization of principal balances. Subsequent to December 31, 2009, \$31.0 million of the mortgages were paid out on maturity.

Senior Unsecured Debentures

(thousands of dollars)

Series	Maturity Date	Interest Rate		Term to Maturity	Principal Outstanding
		Coupon	Effective		
A	June 21, 2012	5.08%	5.29%	2.5	\$ 100,000
B	March 30, 2011	5.25%	5.51%	1.2	98,899
C	December 1, 2011	5.49%	5.67%	1.9	99,900
D	April 1, 2013	5.34%	5.51%	3.3	97,000
E	January 31, 2014	5.36%	5.52%	4.1	100,000
F	October 30, 2014	5.32%	5.47%	4.8	100,000
G	June 1, 2015	5.95%	6.12%	5.4	125,000
		5.42%	5.60%	3.4	\$ 720,799

On November 20, 2009, the Company issued \$125 million principal amount of Series G senior unsecured debentures. These debentures bear interest at the rate of 5.95% and mature on June 1, 2015. On issuance, these debentures were rated BBB with a stable trend by DBRS and Baa3 (stable) by Moody's Investors Service.

On January 21, 2010, the Company completed the issuance of \$125 million aggregate principal amount of Series H senior unsecured debentures due January 31, 2017. The Debentures bear interest at a rate of 5.85% per annum payable semi-annually commencing July 31, 2010.

Convertible Debentures

(thousands of dollars)

			2009			2008		
Interest Rate			Principal	Liability	Equity	Principal	Liability	Equity
Coupon	Effective	Maturity Date						
5.50%	6.45%	September 30, 2017	\$ 76,750	\$ 72,366	\$ 2,314	\$ 83,000	\$ 77,797	\$ 2,503
5.50%	6.39%	September 30, 2017	100,000	94,606	6,015	100,000	94,084	6,015
5.50%	6.61%	September 30, 2017	50,000	46,685	7,387	50,000	46,366	7,387
6.25%	7.60%	December 31, 2016	75,000	69,579	2,632	—	—	—
5.70%	6.91%	June 30, 2017	50,000	46,503	1,482	—	—	—
5.69%	6.77%		\$ 351,750	\$ 329,739	\$ 19,830	\$ 233,000	\$ 218,247	\$ 15,905

The Company uses convertible debentures as a part of its overall capital structure. It is the Company's current intention to continue to satisfy its obligations of principal and interest payments on its convertible unsecured subordinated debentures by issuance of common shares.

On September 18, 2009, the Company issued \$75 million aggregate principal amount of 6.25% convertible unsecured subordinated debentures due December 31, 2016 (the "6.25% Debentures"). The 6.25% Debentures bear interest payable semi-annually commencing March 31, 2010, and are convertible at the option of the holder into common shares of the Company at a conversion rate of 43.6681 common shares per \$1,000 principal amount of 6.25% Debentures, which is equal to a conversion price of \$22.90 per common share.

On December 30, 2009, the Company issued \$50 million aggregate principal amount of 5.70% convertible unsecured subordinated debentures due June 30, 2017 (the "5.70% Debentures"). The 5.70% Debentures bear interest payable semi-annually commencing September 30, 2010, and are convertible at the option of the holder into common shares of the Company at a conversion rate of 33.3333 common shares per \$1,000 principal amount of 5.70% Debentures, which is equal to a conversion price of \$30.00 per common share.

In 2009, 772,313 common shares (2008 – 600,661) were issued to pay interest to holders of convertible debentures.

Shareholders' Equity

Shareholders' equity amounted to \$1,096 million as at December 31, 2009, as compared to \$1,095 million at the end of 2008. Shareholders' equity as at December 31, 2009 included \$19.8 million (2008 – \$15.9 million) representing the equity component of convertible debentures as discussed above.

As at December 31, 2009, the Company had 96,045,394 (2008 – 90,002,581) issued and outstanding common shares with a stated capital of \$1.6 billion (2008 – \$1.5 billion). During fiscal 2009, a total of 6,042,813 common shares were issued as follows: 1,431,108 shares in exchange for the units of Allied Properties REIT; 231,481 shares from the conversion of convertible debentures; 772,313 shares for interest payments on convertible debentures; 39,900 shares from the exercise of common share options and warrants; 118,011 shares from a private placement and 3,450,000 shares from a public offering.

As at March 10, 2010, 96,088,932 common shares were issued and outstanding. There were no material changes since December 31, 2009, other than as described above in the amount of options, warrants or convertible debentures outstanding.

The Company adopted a Dividend Reinstatement Plan "DRIP" in May 2005 enabling shareholders who qualified to elect to participate in the DRIP, to reinvest in additional common shares at a discount of 2% of the weighted average trading price of the common shares on the TSX for the five consecutive trading days preceding the dividend payment date. From the inception of the plan, the quarterly participation rate in the DRIP averaged 76%. On August 7, 2008, the Company announced that it was suspending the DRIP. Accordingly, any dividend payable to shareholders after that date, is not subject to the DRIP. The suspension is in effect unless and until further notice is given. The Company may consider from time to time reinstating the DRIP.

Shareholders' equity as at December 31, 2009 included a deficit of \$523.1 million (2008 – \$380.7 million). The Company has historically paid dividends at levels consistent with general industry practice based on cash flow from operations as opposed to net income.

Share Purchase Options

As of December 31, 2009, the Company issued and had outstanding 3,608,695 share purchase options, with an average exercise price of \$22.36. The options are exercisable by the holder at any time after vesting up to ten years from the date of grant. The options have been issued at various times pursuant to the Company's stock option plan to the employees, officers and directors of the Company and certain third-party service providers. The options granted permit the holder to acquire shares at an exercise price equal to the market price of such shares at the date the option is granted. The purpose of granting options is to encourage the holder to acquire an ownership interest in the Company over a period of time which acts as a financial incentive for the holder to consider the long-term interests of the Company and its shareholders.

If all options outstanding at December 31, 2009 were exercised, 3,608,695 shares would be issued and the Company would receive proceeds of approximately \$80.7 million. This includes 2,199,981 options that were out-of-the-money at December 31, 2009.

Liquidity

(thousands of dollars)	2009	2008
Revolving credit facilities		
Approved	\$ 360,000	\$ 350,000
Cash drawn and letters of credit, net of cash on hand	\$ 56,000	\$ 209,000
Unencumbered assets available as defined by debt covenants, less cash on hand	\$ 1,084,000	\$ 1,482,000
Other unencumbered real estate assets including properties under development	\$ 136,000	\$ 236,000

(thousands of dollars)	2009	2008 ⁽¹⁾
EBITA	\$ 279,342	\$ 253,637
EBITDA margin ⁽²⁾	61.4%	60.3%
EBITDA interest coverage ⁽²⁾	2.14	2.10
EBITDA interest coverage excluding capitalized interest on development ⁽²⁾	2.50	2.54

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

⁽²⁾ Calculated, on a trailing basis, in accordance with the unsecured debentures indenture definitions for the period, excluding non-cash compensation.

Cash flow from operations is dependent on occupancy levels of properties, rental rates achieved, collections of rent and costs to maintain or lease space. The Company's strategy is to maintain debt in the range of 45% to 60% to market capitalization.

At December 31, 2009, this debt ratio was 45.9% based on the Company's calculation. Maturing debt is generally repaid from proceeds refinancing such debt, primarily in the current credit markets by financing unencumbered properties and when available at an acceptable cost, issuing convertible debentures or senior unsecured debentures.

Cash and cash equivalents were \$4.5 million at December 31, 2009 (2008 – \$7.3 million). At December 31, 2009, the Company had undrawn credit facilities totalling \$304 million and had approved credit facilities totalling \$360 million. The Company also had unencumbered assets with a gross book value of approximately \$1.2 billion. During the year ended December 31, 2009, the Company completed secured mortgages totalling \$187.3 million; issued \$125 million of convertible debentures in two transactions; issued \$125 million in senior unsecured debentures and issued 4.9 million common shares in two transactions for gross proceeds of \$80.5 million. These transactions demonstrate the Company's access to capital and various sources of financing. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term based on the availability of capital in various markets.

The Company historically used secured mortgages, term loans and revolving credit facilities, senior unsecured debentures, convertible debentures and equity issues to finance its growth. The actual level and type of future borrowings will be determined based on prevailing interest rates, various costs of debt and equity capital, capital market conditions and Management's general view of the required leverage in the business.

Cash Flows

(thousands of dollars)	2009	2008 ⁽¹⁾
Cash provided by operating activities	\$ 148,628	\$ 147,519
Cash used in investing activities	(232,860)	(311,279)
Cash provided by financing activities	80,195	160,238
Effect of currency rate movement	1,322	334
Decrease in cash and cash equivalents	\$ (2,715)	\$ (3,188)

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

Operating Activities

Cash provided by operating activities increased in 2009 primarily from cash flow generated by the growth in the income-producing shopping centre portfolio from acquisitions and development coming on line.

Investing Activities

The Company continued to make significant investments in its shopping centre portfolio. The overall level of investing activity in 2009 is lower than the prior year. Details of the Company's investments in acquisitions and developments are provided under the "Business and Operations Review", section of this MD&A.

Financing Activities

The cash flow provided by financing activities reflects the issuance of \$125 million convertible debentures, the issuance of \$125 million senior unsecured debentures, the issuance of common shares and mortgage financing activities, offset by the paydown of credit facilities. These activities are fully described in the "Capital Structure and Liquidity" section of this MD&A.

Contractual Obligations

(thousands of dollars)	Total	Payments Due by Period			
		Year ended December 31 2010	Years ended December 31 2011 to 2012	Years ended December 31 2013 to 2014	Thereafter
Mortgages					
Scheduled amortization	\$ 194,611	\$ 33,671	\$ 62,593	\$ 48,864	\$ 49,483
Payments on maturity	1,119,980	119,893	190,118	369,752	440,217
Total mortgage obligations	1,314,591	153,564	252,711	418,616	489,700
Canadian revolving credit facilities	42,636	—	42,636	—	—
Senior unsecured debentures	720,799	—	298,799	297,000	125,000
Land leases	18,835	823	1,646	1,656	14,710
Contractual committed costs to complete current development projects	37,976	31,321	6,655	—	—
Total contractual obligations	\$ 2,134,837	\$ 185,708	\$ 602,447	\$ 717,272	\$ 629,410

In addition, the Company has \$22.4 million of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's obligations related to its development projects.

The Company's estimated costs to complete properties currently under development are \$120.2 million of which \$38.0 are contractually committed. The balance of the costs to complete will only be committed once leases are signed and construction activities are underway. These contractual and potential obligations primarily consist of construction contracts and additional planned development expenditures and are expected to be funded from credit facilities as the work is completed.

The Company is liable for minimum land-lease payments of \$0.8 million on certain of its properties in each year from 2010 to 2014 and \$14.7 million thereafter. Total minimum land-lease payments are \$18.8 million. The leases expire between 2023 and 2052.

Contingencies

The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of Management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the Company.

On October 16, 2006, First Capital Realty and First Capital (Royal Oak) Corporation (a wholly owned nominee subsidiary of First Capital Realty) were named as defendants in a lawsuit commenced by Rencor Developments Inc. and Rencor Developments (Royal Oak) Inc. (collectively, "Rencor"). First Capital Realty and Rencor are joint-venture partners in the Royal Oak Shopping Centre located in Calgary, Alberta, in which First Capital Realty owns a 60% undivided interest and Rencor owns the remaining 40% undivided interest. The Statement of Claim seeks damages for alleged breaches by First Capital Realty of certain agreements relating to the ownership and operation of the Royal Oak Shopping Centre. First Capital Realty believes the lawsuit to be frivolous and without merit and intends to vigorously defend against the allegations made in the Statement of Claim. Accordingly, as of December 31, 2009, First Capital Realty has not recorded any loss provision with respect to this claim in its financial statements.

Regardless of the merits of the claim by Rencor, one of the consequences of this lawsuit is that First Capital Realty will not, pending resolution of the lawsuit, be able to exercise its contractual option to acquire the 40% interest in the Royal Oak Shopping Centre that First Capital Realty does not currently own. This option is on financial terms that are favourable to First Capital Realty (a capitalization rate of 9.5%), and was expected to be exercised by First Capital Realty in January of 2007. The exercise by First Capital Realty of this contractual option in January 2007 was expected to contribute approximately \$900,000 annually to First Capital Realty's FFO in 2007 and each year thereafter.

The Company is contingently liable, jointly and severally, for approximately \$51.1 million (2008 – \$45.6 million) to various lenders in connection with loans advanced to its joint-venture co-owners secured by the owners' interest in the co-ownerships.

Dividends

The Company has maintained a policy of paying regular quarterly dividends to common shareholders since it commenced operations as a public company in 1994. Dividends are set taking into consideration the Company's capital requirements, its alternative sources of capital and common industry cash distribution practices.

	2009	2008
Regular dividends paid per common share	\$ 1.28	\$ 1.28
Payout ratio calculated as a percentage of:		
Funds from operations ⁽¹⁾	79.0%	76.5%
Adjusted funds from operations	86.5%	87.1%

⁽¹⁾ FFO excludes Equity One's non-cash impairment loss and dilution gains and losses on Equity One Investment.

In addition, the Company distributed the \$0.45 dividend-in-kind related to the Company's interest in Equity One which is discussed in the "Equity One, Inc." section in this MD&A.

QUARTERLY FINANCIAL INFORMATION

	2009				2008			
	Q4	Q3	Q2	Q1	Q4 ⁽²⁾	Q3 ⁽²⁾	Q2 ⁽²⁾	Q1 ⁽²⁾
(thousands of dollars, except per share and other data)								
Property rental revenue	113,232	108,829	109,727	110,343	105,695	100,830	101,905	101,762
Property operating costs	39,524	37,217	38,170	42,043	37,784	35,375	37,530	38,463
Net operating income	73,708	71,612	71,557	68,300	67,911	65,455	64,375	63,299
Equity income (loss) from								
Equity One ⁽⁴⁾	(1,287)	954	3,369	4,030	1,405	(1,506)	5,007	3,810
Net income	14,736	9,002	9,093	9,082	10,574	8,227	10,158	8,382
Basic earnings per share	\$0.15	\$ 0.09	\$ 0.10	\$ 0.10	\$ 0.12	\$ 0.09	\$ 0.12	\$ 0.10
Diluted earnings per share	\$0.15	\$ 0.09	\$ 0.10	\$ 0.10	\$ 0.12	\$ 0.09	\$ 0.12	\$ 0.10
Weighted average diluted shares outstanding								
– EPS	97,007,411	94,902,006	92,622,290	91,172,216	90,423,576	90,021,640	87,269,113	81,363,323
Funds from operations	36,159	38,502	39,092 ⁽¹⁾	38,243	37,974 ⁽¹⁾	38,739 ⁽¹⁾	34,702	34,535
Funds from operations/ share diluted	\$ 0.37	\$ 0.41	\$ 0.42 ⁽¹⁾	\$ 0.42	\$ 0.42 ⁽¹⁾	\$ 0.43 ⁽¹⁾	\$ 0.40	\$ 0.42
Cash provided by operating activities	50,436	38,261	35,801	24,130	58,134	43,132	24,405	21,848
Weighted average diluted shares outstanding								
– FFO	97,007,411	94,902,006	92,622,290	91,172,216	90,423,576	90,021,640	87,269,113	81,363,323
Available funds from operations	38,694	37,456	38,779	36,902	37,679	36,470	34,993	31,601
Available funds from operations/share diluted	\$ 0.36	\$ 0.36	\$ 0.38	\$ 0.37	\$ 0.38	\$ 0.37	\$ 0.37	\$ 0.35
Weighted average diluted shares outstanding								
– AFFO	108,946,987	103,879,309	101,020,439	99,552,226	99,053,205	98,648,017	95,898,743	89,989,640
Regular dividend	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
Dividend-in-kind	\$ —	\$ 0.45	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total assets	3,691,643	3,678,153	3,801,501	3,769,275	3,707,625	3,601,965	3,491,230	3,476,346
Total mortgages, loans and credit facilities	1,354,668	1,499,011	1,703,274	1,657,535	1,573,530	1,487,640	1,434,709	1,438,650
Shareholders' equity	1,095,843	1,109,353	1,106,786	1,114,741	1,095,146	1,123,298	1,068,374	1,064,216
Other Data								
Number of properties	175	175	174	172	171	171	168	164
Gross leasable area ⁽³⁾	20,812,000	20,674,000	20,414,000	20,198,000	20,166,000 ⁽³⁾	19,611,000	19,326,000	19,344,000
Occupancy % ⁽³⁾	96.2%	96.0%	96.1%	96.0%	96.4% ⁽³⁾	95.8%	95.5%	95.5%

⁽¹⁾ Q2 of 2009 excludes a dilution loss on Equity One investment. Q3 and Q4 of 2008 exclude non-cash impairment losses recorded by Equity One and Q4 2008 excludes a dilution gain on Equity One investment.

⁽²⁾ Prior year amounts have been restated for a change in accounting standards.

⁽³⁾ The Company has changed its method of recording GLA and occupied space. Refer to the "Leasing and Occupancy" section of this MD&A.

⁽⁴⁾ The Q3 2009 amounts cover the period to August 14, 2009. See discussion of dividend-in-kind in the "Equity One, Inc." section of this MD&A.

Refer to the MD&A and the Quarterly Financial Statements for discussion and analysis relating to the four quarters in 2008 and the first three quarters in 2009. A discussion of the fourth quarter of 2009 follows.

Fourth Quarter 2009 Operations and Results

Acquisition and Development

During the fourth quarter of 2009, the Company acquired an 80,000 square foot retail property in Calgary, Alberta. The acquisition amount of \$32.1 million, including closing costs was paid with new mortgage financing of \$20 million and with the balance in cash. The Company also invested \$6.6 million in the acquisition of additional space adjacent to two existing properties comprising 31,000 square feet and two land parcels adjacent to existing properties totalling 0.6 acres.

In addition to acquisitions of income-producing properties and development assets, the Company invested \$48.2 million during the fourth quarter in its active development projects as well as in certain improvements to existing properties.

Development of 145,900 square feet was brought on line in the fourth quarter of 2009, with 142,700 square feet leased at an average rate of \$23.39 per square foot. The Company also reopened 14,400 square feet of redeveloped space at an average rate of \$19.22 per square foot.

Property Name	City	Province	Square Feet	Major Tenants
Development of new gross leasable area ⁽¹⁾				
Derry Heights ⁽²⁾	Milton	ON	44,100	Shoppers Drug Mart, CIBC, RBC
Bowmanville	Bowmanville	ON	22,700	Staples, The Beer Store
Rutherford Marketplace ⁽²⁾	Vaughan	ON	19,400	Pathways Academy
Old Oakville	Oakville	ON	16,000	LCBO
Place Kirkland	Kirkland	QC	12,100	IGA (Expansion)
Other space – various projects			31,600	
			145,900	
Redevelopment of existing gross leasable area				
South Park Centre	Edmonton	AB	4,500	360 Theatre Systems
Centre Commercial Beaconsfield ⁽²⁾	Beaconsfield	QC	4,000	Beaconsfield Dentist, Co-Operators
Place Kirkland	Kirkland	QC	3,000	CRU tenants
Northgate Centre	Edmonton	AB	2,900	The X-Ray Clinic
			14,400	
Total			160,300	

⁽¹⁾ Includes new space created in redevelopment properties and greenfield developments.

⁽²⁾ Constructed in accordance with Leadership in Energy and Environmental Design (LEED) certificate guidelines.

Leasing and Occupancy

Gross new leasing in the fourth quarter of 2009 totalled 265,600 square feet including development and redevelopment space coming on line. The Company achieved a 17.7% increase on 382,200 square feet of renewal leases over the expiring rates. Portfolio occupancy at December 31, 2009 increased to 96.2% from 96.0% at September 30, 2009. Properties acquired during the fourth quarter had an average lease rate per square foot of \$27.83 and occupancy of 91.2%. The average rate per occupied square foot at December 31, 2009 increased to \$15.71 from \$15.54 at September 30, 2009.

Funds from Operations

The Company's GAAP net income is reconciled to FFO below:

(thousands of dollars)	Three months ended	
	December 31, 2009	December 31, 2008 ⁽¹⁾
Net income for the period	\$ 14,736	\$ 10,574
Add (deduct):		
Amortization of shopping centres, deferred leasing costs and intangible assets	23,022	21,537
Gain on disposition of income-producing shopping centre	(526)	(1,631)
Equity loss (income) from Equity One	1,287	(1,405)
FFO from Equity One	—	3,753
Future income taxes	(2,360)	7,021
FFO	36,159	39,849
Add: the Company's share of Equity One's non-cash impairment loss	—	1,023
Deduct: Dilution gain on Equity One investment	—	(2,898)
FFO excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	\$ 36,159	\$ 37,974

The components of FFO are:

(thousands of dollars)	Three months ended					
	December 31, 2009			December 31, 2008 ⁽¹⁾		
	FFO – Core Operations	FFO – EQY and Other Non-recurring Items	Total FFO	FFO – Core Operations	FFO – EQY and Other Non-recurring Items	Total FFO
Net operating income	\$ 73,708	\$ —	\$ 73,708	\$ 67,911	\$ —	\$ 67,911
Interest expense – Canadian operations	(32,343)	—	(32,343)	(26,177)	—	(26,177)
Interest expense – US operations	—	—	—	—	(2,444)	(2,444)
Corporate expense	(5,801)	—	(5,801)	(5,614)	—	(5,614)
Interest and other income	2,549	—	2,549	347	—	347
Other (losses) gains and (expenses) ⁽²⁾	—	(2,165)	(2,165)	—	(613)	(613)
Funds from operations from Equity One	—	—	—	—	4,776	4,776
Amortization of non-real estate assets	(1,451)	—	(1,451)	(592)	—	(592)
Current income taxes	—	1,662	1,662	—	380	380
FFO excluding Equity One's non-cash impairment loss and dilution (loss) gain on Equity One investment	36,662	(503)	36,159	35,875	2,099	37,974
Add: the Company's share of Equity One's non-cash impairment loss	—	—	—	—	(1,023)	(1,023)
Add: Dilution gain on Equity One investment	—	—	—	—	2,898	2,898
FFO	\$ 36,662	\$ (503)	\$ 36,159	\$ 35,875	\$ 3,974	\$ 39,849
FFO per diluted share excluding Equity One's non-cash impairment loss and dilution gain on Equity One investment	\$ 0.38	\$ (0.01)	\$ 0.37	\$ 0.40	\$ 0.02	\$ 0.42
Add: the Company's share of Equity One's non-cash impairment loss	—	—	—	—	(0.01)	(0.01)
Add: Dilution gain on Equity One investment	—	—	—	—	0.03	0.03
FFO per diluted share	\$ 0.38	\$ (0.01)	\$ 0.37	\$ 0.40	\$ 0.04	\$ 0.44
Weighted average diluted shares						
– FFO	97,007,411	97,007,411	97,007,411	90,423,576	90,423,576	90,423,576

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

⁽²⁾ Excludes gains on disposition of income-producing real estate.

The Company's funds from operations – core operations for the three months ended December 31, 2009 totalled \$36.7 million or \$0.38 per diluted common share compared to \$35.9 million or \$0.40 per diluted common share in the same period in 2008. FFO – core operations, was positively affected by same property NOI growth and the effect of acquisitions and development coming on line. This was largely offset by increased interest and amortization expense.

For the three months ended December 31, 2009, FFO – EQY and other non-recurring items consisted of a net loss of \$0.5 million or \$0.01 per diluted common share which compares to a net gain of \$2.1 million or \$0.02 per diluted common share. FFO – EQY and other non-recurring items included one-time items which consist of gains on marketable securities offset by losses on debt extinguishment, losses on termination of hedges, one-time severance payment and one-time property management internalization costs.

Adjusted Funds from Operations

(thousands of dollars, except per share amounts)	Three months ended					
	December 31, 2009			December 31, 2008 ⁽¹⁾		
	AFFO – Core Operations	AFFO – EQY and Other Non-recurring Items	Total AFFO	AFFO – Core Operations	AFFO – EQY and Other Non-recurring Items	Total AFFO
FFO excluding dilution loss on Equity One Investment and the Company's share of Equity One's non-cash impairment loss	\$ 36,662	\$ (503)	\$ 36,159	\$ 35,875	\$ 2,099	\$ 37,974
Add/(deduct):						
Interest expense payable in shares	4,819	—	4,819	3,540	—	3,540
Rental revenue recorded on a straight-line basis and market rent adjustments	(2,731)	—	(2,731)	(1,461)	—	(1,461)
Non-cash compensation expense	882	600	1,482	928	—	928
Revenue sustaining capital expenditures and leasing costs ⁽²⁾	(3,329)	—	(3,329)	(4,779)	—	(4,779)
Funds from operations from Equity One excluding non-cash impairment loss	—	—	—	—	(4,776)	(4,776)
Dividends from Equity One (regular)	—	—	—	—	5,145	5,145
Return of capital portion of marketable securities, net	(1,273)	—	(1,273)	409	—	409
Change in cumulative unrealized (gain) loss on marketable securities	—	(314)	(314)	—	850	850
Loss (gain) on extinguishment of debt	—	1,497	1,497	—	(438)	(438)
Realized losses on termination of hedges	—	1,181	1,181	—	290	290
Unrealized losses on interest rate swaps not designated as hedges	—	1,203	1,203	—	—	—
Gain on disposition of land	—	—	—	—	(3)	(3)
AFFO	\$ 35,030	\$ 3,664	\$ 38,694	\$ 34,512	\$ 3,167	\$ 37,679
AFFO per diluted share	\$ 0.33	\$ 0.03	\$ 0.36	\$ 0.35	\$ 0.03	\$ 0.38
Weighted average diluted shares for AFFO⁽³⁾	108,946,987	108,946,987	108,946,987	99,053,205	99,053,205	99,053,205

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

⁽²⁾ Estimated at \$0.60 per square foot per annum on average gross leasable area for 2009 (\$0.50 per square foot per annum in 2008).

⁽³⁾ Includes the weighted average outstanding shares that would result from the conversion of the convertible debentures.

Non-recurring AFFO primarily consists of dividends from Equity One, net of the associated interest expense, realized gains on marketable securities, cash severance costs and costs related to the acquisition of the 40% interest in FCB that the Company did not already own.

For the three months ended December 31, 2009, AFFO from core operations rose 1.4% to \$35.0 million from \$34.5 million in the same period in 2008.

A reconciliation from cash provided by operating activities (a GAAP measure) to AFFO is presented below:

(thousands of dollars)	Three months ended	
	December 31, 2009	December 31, 2008 ⁽¹⁾
Cash provided by operating activities	\$ 50,436	\$ 58,134
Realized losses (gains) on sale of marketable securities	3,340	(160)
Loss on termination of hedges	1,181	290
Dividend income – return of capital portion	(1,273)	409
Deferred leasing costs	1,517	1,021
Net change in non-cash operating items	(18,695)	(20,911)
Settlement of restricted share units	2,463	1,275
Settlement of deferred share units	514	–
Amortization of other assets	(807)	(366)
Amortization of financing fees	(644)	(226)
Interest paid in excess of coupon interest on assumed mortgages	294	294
Debenture interest in excess of coupon	(306)	(225)
Other non-cash interest expense	(749)	(617)
Loss on foreign currency exchange	(67)	–
Convertible debenture interest payable in common shares	4,819	3,540
Revenue sustaining capital expenditures and leasing costs	(3,329)	(4,779)
AFFO	\$ 38,694	\$ 37,679

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

Net Income

(thousands of dollars, except per share amounts)	Three months ended	
	December 31, 2009	December 31, 2008 ⁽¹⁾
REVENUE		
Property rental revenue	\$ 113,232	\$ 105,695
Interest and other income	2,549	347
	115,781	106,042
EXPENSES		
Property operating costs	39,524	37,784
Interest expense	32,343	28,621
Amortization	24,473	22,129
Corporate expenses	5,801	5,614
	102,141	94,148
Income before undernoted items	13,640	11,894
Equity (loss) income from Equity One	(1,287)	1,405
Other (losses) gains and (expenses)	(1,639)	3,916
Income before income taxes	10,714	17,215
Income taxes (recovery):		
Current	(1,662)	(380)
Future	(2,360)	7,021
	(4,022)	6,641
Net income	\$ 14,736	\$ 10,574
Earnings per common share		
Basic	\$ 0.15	\$ 0.12
Diluted	\$ 0.15	\$ 0.12

⁽¹⁾ Prior year comparative figures have been restated for a change in accounting standards.

Net operating income for the three months ended December 31, 2009 totalled \$73.7 million, compared to \$67.9 million in the fourth quarter of 2008, an increase of \$5.8 million or 8.5%. Same property NOI increased by 5.9% generating NOI growth of \$3.7 million in the fourth quarter 2009 over the fourth quarter of 2008, due primarily to redevelopment and expansion space and increases in lease rates and occupancy. Same property NOI in the fourth quarter of 2009, excluding expansion or redevelopment space, increased by \$1.9 million or 3.2% over the same prior year period.

OUTLOOK

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. Certain material factors and assumptions were applied in providing these forward-looking statements. See our forward-looking statement disclaimer on the first page of this annual MD&A.

2010 Outlook

Over the past several years First Capital Realty has made significant progress in growing its business and generating accretive growth in funds from operations while enhancing the quality of its portfolio.

The current environment remains competitive with little transaction activity. Both debt and equity markets are accessible but continue to be challenging relative to pricing currently being asked by property vendors. The Company will continue to selectively acquire properties that are well-located and of high quality, where they add strategic value and/or operating synergies provided they will be accretive to FFO over the long term, and equity and debt capital can be priced and committed to maintain conservative leverage.

Development and redevelopment activities continue to provide the Company with opportunities to grow within its existing portfolio of assets. Once completed, these activities typically generate higher returns on investment.

With respect to 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 given the current cost of capital.

Specifically, Management will focus on the following five areas to achieve its objectives in 2010:

- same property net operating income growth, taking into account maintaining high occupancy;
- development and redevelopment activities;
- selective acquisitions;
- increasing efficiency and productivity of operations; and
- improving the cost of capital, for both debt and equity.

Overall, Management is confident that the quality of the Company's balance sheet, the defensive nature of its assets and operations will continue to serve it well in the current environment.

Guidance

Readers should refer to the Company's 2009 year-end press release dated March 11, 2010 as filed on SEDAR at www.sedar.com for a discussion of the Company's previously issued 2009 specific guidance as compared with actual results for 2009 and for 2010 specific guidance.

The purpose of the Company's guidance was to provide readers with Management's view as to the expected financial performance of the Company, using factors that are commonly accepted and viewed as meaningful indicators of financial performance in the real estate industry.

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND POLICIES

Summary of Critical Accounting Estimates

First Capital Realty's significant accounting policies are described in Note 1 to the Consolidated Financial Statements. Management believes the policies which are most subject to estimation and Management's judgement are those outlined below.

Fair Value

Fair value is defined as the amount at which an item can be bought or sold between independent, knowledgeable parties under no compulsion to act, as opposed to a forced or liquidation sale.

Quoted market prices in active markets are usually the best evidence of fair value when they are available. Market prices are usually available for marketable securities and other actively traded financial instruments owned by the Company. When quoted market prices are not available, estimates of fair value are based on the best information available, including comparable market data and other valuation techniques, including discounted cash flows and other models based on future cash flows.

Where the valuation method chosen is based on future cash flows, the Company would be required to make estimates that incorporate assumptions of economic conditions, local market conditions, the potential uses of assets and other factors.

As a result, the Company's determination of fair value could vary under differing circumstances and result in different calculations.

The most significant areas which are affected by fair value estimates in the Company's financial statements are:

- allocations of purchase price on property acquisitions;
- estimates of fair value of assets when assessing potential impairments;
- valuation of financial instruments both for disclosure and measurement purposes; and
- valuation of stock options using the Binomial Method.

Property Acquisitions

For acquisitions subsequent to September 12, 2003, in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1581 and 3062, Management is required to allocate the purchase price to land, building, tenant improvements, and intangibles such as the value of above-market and below-market leases, lease origination costs, tenant relationships and mortgages, if any.

Management uses estimates and judgements as well as third-party appraisals to determine the following:

- The fair value of land as of the acquisition date.
- The value of the depreciated replacement cost of buildings as of the acquisition date based on prevailing construction costs for buildings of a similar class and age.
- The value of the above- and below-market leases based on the present value of the difference between the rents payable under the terms of the in-place leases and estimated market rents.
- The value of deferred leasing costs, including tenant improvements, at depreciated replacement cost based on estimates of prevailing construction costs, taking into account the condition of tenants' premises and year of improvement.
- The value of lease origination costs based on estimates of the costs that would be required for the existing leases to be put in place under the same terms and conditions. These costs include leasing commissions, foregone rent and operating cost recoveries during an estimated lease-up period.
- The value of the tenant relationships, if any, based on the net costs avoided if the tenants were to renew their leases at the end of the existing term, and the probability that the tenants will renew.
- The fair value of debt assumed on acquisition by reference to prevailing market interest rates.

Estimates of fair values and market rates used could vary and impact reported financial results.

Impairment of Assets

Under Canadian GAAP, Management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. First Capital Realty's long-lived assets consist of investments in income-producing properties and mortgages receivable. The fair value of investments in income-producing properties is dependent upon anticipated future cash flows from operations over the anticipated holding period.

The review of anticipated cash flows involves subjective assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, Management assesses changes in business climates and other factors which may affect the ultimate value of the property. These assumptions are subjective and may not be ultimately achieved.

The fair value of mortgages receivable depends upon the financial covenant of the issuer and the economic value of the underlying security.

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment would be recognized.

The estimates of future cash flows and the impact of other factors could vary, and result in a different calculation of the impairment.

In assessing impairment of the income producing shopping centres, Management makes use of the property appraisals completed by both external appraisers and internally for the purposes of International Financial Reporting Standards.

Amortization of Income Properties

Amortization is recorded on buildings using a straight-line basis over the expected useful economic life of the building, which is typically 40 years. A significant portion of the acquisition cost of each property is allocated to the building. The allocation of the acquisition cost to the building and the determination of the useful life are based upon Management's estimates. In the event the allocation to the building is inappropriate or the estimated useful life of the building proves incorrect, the computation of amortization will not be appropriately reflected over future periods. The Company's total gross book value of buildings is \$2.7 billion. If the useful life estimate of the buildings changed by one year, the associated amortization expense would change by \$1.7 million.

Fair Value of Financial Instruments

The Company is required to determine the fair value of its mortgage debt, senior unsecured debentures, loans, mortgages and marketable securities and its convertible debentures. In determining the fair value of the Company's outstanding mortgages, Management uses internally developed models, which incorporate estimated market rates. In determining market rates, Management adds a credit spread to quoted rates on Canadian government bonds with similar maturity dates to the Company's mortgages. A 1% change in the interest rate used to determine the fair value of the mortgages payable would change the fair value of the mortgages payable by \$52 million. Similarly, a 1% change in the interest rate used to determine the fair value of the senior unsecured debentures would change the fair value by \$21 million. The fair value of the Company's convertible debentures is based on current trading prices. Estimates of market rates and the credit spread applicable to a specific property could vary and result in a different disclosed fair value.

Income Taxes

The Company exercises judgement in estimating future income tax assets and liabilities. Income tax laws are potentially subject to different interpretations, and the income tax expense recorded by the Company reflects the Company's interpretation of the relevant tax laws. The Company is also required to estimate the timing of reversals of temporary differences between accounting and taxable income in determining the appropriate rate to apply in calculating future income taxes.

SUMMARY OF CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

(a) Current accounting policy changes

Goodwill and Intangible Assets – CICA Section 3064

Effective January 1, 2009, the Company adopted on a retroactive basis with restatement of prior years CICA new accounting standard: 3064 *Goodwill and Intangible Assets* which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset and related amendments to *Section 1000, Financial Statement Concepts*. Section 3064 replaces *Section 3062 Goodwill and Other Intangible Assets* and *Section 3450 Research and Development Costs*. As a result of applying this standard, the Company will no longer defer recoverable costs and match the expense to the period over which the costs are recovered from the tenants. The standard requires that the expenditure is either capitalized or expensed in the period it is incurred, based upon the nature of the expenditure. Amounts that are capitalized are added to the balance of Shopping Centres. Amounts that are expensed are charged to property operating costs.

The effect of adopting this standard is summarized as follows:

Effect on the balance sheet as at (thousands of dollars)	2009				2008			
	Dec 31	Sept 30	June 30	March 31	March 31	June 30	Sept 30	Dec 31
		Increase (decrease)				Increase (decrease)		
Shopping centres	\$ 14,728	\$ 10,491	\$ 9,607	\$ 10,958	\$ 7,683	\$ 7,809	\$ 8,099	\$ 10,818
Other assets	\$ (15,677)	\$ (11,675)	\$ (10,658)	\$ (11,661)	\$ (8,233)	\$ (8,369)	\$ (8,681)	\$ (11,478)
Shareholders' equity	\$ (949)	\$ (1,184)	\$ (1,051)	\$ (703)	\$ (550)	\$ (560)	\$ (582)	\$ (660)

Effect on the statement of earnings for the three months ended (thousands of dollars, except per share amounts)	2009				2008			
	Dec 31	Sept 30	June 30	March 31	March 31	June 30	Sept 30	Dec 31
		Increase (decrease)				Increase (decrease)		
Interest and other income	\$ (249)	\$ (172)	\$ (150)	\$ (193)	\$ (132)	\$ (128)	\$ (157)	\$ (165)
Property operating costs	\$ (650)	\$ (496)	\$ (479)	\$ (472)	\$ (359)	\$ (334)	\$ (377)	\$ (379)
Shopping centres amortization	\$ 159	\$ 457	\$ 676	\$ 322	\$ 206	\$ 216	\$ 242	\$ 292
Net income	\$ 242	\$ (133)	\$ (347)	\$ (43)	\$ 21	\$ (10)	\$ (22)	\$ (78)
Earnings per common share (basic and diluted)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Funds from operations (FFO)	\$ 401	\$ 324	\$ 329	\$ 279	\$ 227	\$ 206	\$ 220	\$ 214
FFO per diluted share	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Adjusted funds from operations (AFFO)	\$ 401	\$ 324	\$ 329	\$ 279	\$ 227	\$ 206	\$ 220	\$ 214
AFFO per diluted share	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

(b) Future accounting changes

Future adoption of International Financial Reporting Standards ("IFRS") in Canada

Overview

The Canadian Accounting Standards Board ("AcSB") has mandated that all publicly accountable profit-oriented enterprises adopt IFRS, which replaces Canadian GAAP, for interim and annual periods beginning on or after January 1, 2011. Comparative information for 2010 will be presented under IFRS. Early adoption under certain circumstances is allowed.

The Company continues to evaluate the effect of the adoption of IFRS on its consolidated financial statements as new standards are issued by the International Accounting Standards Board ("IASB"). However, Management expects that the consolidated financial statements prepared under IFRS will have material differences from the current Canadian GAAP financial statements. Also, both Realpac and the Company are assessing the effect of the adoption of IFRS on the definitions of FFO and AFFO.

The Company's major shareholder, Gazit-Globe, has been reporting under IFRS for some time. As a result, Management has been able to leverage its experience in preparing Canadian GAAP/IFRS reconciliations for Gazit-Globe. On that basis, many of the major steps that are required for IFRS adoption have already taken place. These include:

- Identification and quantification of the differences between IFRS and Canadian GAAP that have a material impact on the Company's consolidated financial statements, based on Gazit Globe's accounting policy choices;
- Establishing processes for the collection of data required to make the adjustments necessary under IFRS;
- Assessing resource requirements, as well as understanding the impact on the Company's business groups and operations; and
- Changes and additions to internal controls over financial reporting that are required.

In addition, each quarter, the Company has disclosed the effect of valuing investment properties at fair value rather than cost less accumulated amortization, which is the most significant IFRS/Canadian GAAP difference that affects the Company and the real estate industry. This disclosure is included below in this MD&A.

The major steps that form part of the Company's conversion plan for Canadian reporting purposes are set out below.

IFRS Conversion Plan – Significant Elements

Area	Steps	Progress
Financial Statement Presentation and Disclosure	Identification of IFRS/Canadian GAAP differences	Completed
	Evaluate and select accounting policy alternatives	Evaluation complete, final selection in progress
	Quantify the effect of the differences based on the accounting policy alternatives chosen	Substantially complete
	Prepare opening IFRS balance sheet as at January 1, 2010	Substantially complete
	Prepare IFRS balance sheet, statement of income and cash flows at each quarter end in 2010 so that comparatives are ready for 2011	Will occur during 2010 at each quarter end
Processes and Systems	Identify changes required to current information systems	Completed
	Implement changes to the information systems	To be implemented in the second half of 2010
	Identify data collection requirements and implement processes to collect the data	Completed
	Determine valuation process for investment properties, including frequency and the proportion of appraisals to be completed internally versus externally	Completed

Area	Steps	Progress
Business impacts	Review significant financial covenants and make changes if required	Review of financial covenants is complete and no changes are required
	Review employee compensation plans and make changes if required	Changes to employee compensation plans will be completed in conjunction with the 2011 business plan process
	Identify required resources, including valuation expertise as well as additional accounting resources during the transition	Completed
Training	Education of the Board of Directors, Audit Committee and Senior Management on the effect of IFRS	Education sessions have taken place with the Board, Audit Committee and Senior Management. Updates take place as the IASB makes changes to standards
	Technical training of accounting and valuation staff	Senior accounting staff have all had technical training. The training of the remainder of the accounting staff will occur throughout 2010
	Communication to all other internal and external stakeholders	Ongoing communication to external stakeholders through MD&A each quarter. Internal stakeholders are given status updates as required during the process
Internal controls over financial reporting and disclosure	Ensure the appropriate documentation of processes and systems are in place	Completed. The process documentation will continue to be updated throughout 2010
	Ensure appropriate changes to internal controls are made according to the appropriate control framework	Substantially completed
	Assess the effectiveness of the controls	Ongoing

The conversion plan will continue to progress during 2010 based on changes in the accounting standards and the Company's ongoing implementation of its systems, processes and resources.

Effect of Adoption of IFRS

Adoption of IFRS requires retrospective application as at the transition date. The Company's transition date for Canadian reporting purposes is January 1, 2010, as the fiscal year 2010 results will be presented comparatively under IFRS when the Company commences reporting under IFRS in 2011.

Under IFRS 1: "First-time Adoption of International Financial Reporting Standards ("IFRS 1"), the Company can elect to apply prospective treatment under certain conditions to certain accounting standards. In addition, the IFRS 1 provides for exceptions and optional exemptions for first-time adopters. The cumulative net income effect of the differences between IFRS and Canadian GAAP as at January 1, 2010 will be recognized in retained earnings, in accordance with IFRS 1.

The key differences between IFRS and Canadian GAAP that affect the preparation of the Company's consolidated financial statements under IFRS, as well as the significant accounting policy choices and exemptions that the Company intends to apply are set out in the table below:

Item	Current Canadian GAAP Treatment	IFRS Treatment
Basis of valuation of investment properties	Cost less accumulated amortization.	IFRS allows an entity to choose either a) fair value; or b) cost less accumulated amortization. IFRS also allows entities to elect to deem the transition date fair value as the "deemed cost" and then apply the cost model from that date. Under the cost model, an entity is still required to disclose the fair value of its investment properties, at least annually. The Company intends to adopt the fair value model. The effect of applying the fair value model to investment properties is quantified in this MD&A in the IFRS section.

<i>Item</i>	<i>Current Canadian GAAP Treatment</i>	<i>IFRS Treatment</i>
Recognition of intangible assets and liabilities	Fair value as at the date of acquisition of the related income-producing property, less accumulated amortization.	Separate recognition of intangible assets and liabilities on acquisitions of investment property by the Company will no longer be required under IFRS if the fair value model is selected.
Transaction costs on property acquisitions	Capitalized as part of the cost of the asset.	Under IFRS, transaction costs on a business combination are expensed immediately, whereas the costs on an asset acquisition are capitalized. The definition of a business combination is broad under IFRS, and may capture investment property acquisitions. The application of this standard to the Company's reporting in Canada under IFRS is still being evaluated.
Future income taxes	Measured based on the Canadian GAAP carrying values of assets and liabilities.	Future income tax assets and liabilities will need to be adjusted based upon the change in the carrying values of all other assets and liabilities upon conversion to IFRS. The most significant of these adjustments is the additional future tax liability as a result of the re-valuation of investment properties to fair value. The effect of this is quantified in this MD&A with the fair value of investment properties in the IFRS section.
Income statement classification of lease incentive payments to tenants	Under Canadian GAAP, lease incentive payments to tenants are amortized to rental revenue as opposed to being amortized to amortization expense. The Company has no material amounts of payments to tenants that meet the definition of a lease incentive under Canadian GAAP.	Under IFRS, certain of the payments that the Company makes to its tenants will be classified as lease incentives under IFRS and therefore the amortization will be recorded as a reduction of rental revenue rather than as an amortization of an asset.
Capitalization of interest and incidental operations to development projects	Interest costs and incidental operations are capitalized during the period of active development which includes a lease-up period after the asset is available for tenant possession.	Incidental operations are not capitalized either before or during development. Also active development is deemed to cease when an asset is ready for tenant possession. The Company expects a reduction in capitalized costs including capitalized interest under IFRS, which will be quantified and disclosed during 2010.

Other significant differences between Canadian GAAP and IFRS which have been considered by Management but are not currently expected to be material to the Company's financial statements are set out below:

Straight-line Recognition of Rental Revenue

Under Canadian GAAP, straight-line recognition of rental revenue was adopted January 1, 2004 and applied prospectively from that date. Under IFRS, straight-line rent recognition is applied retroactively by all leases. The effect on the Company's financial statements for 2010 and subsequent years of this difference is not expected to be material.

Asset Impairment

There are differences between the method of determining the amount of impairment charges between Canadian GAAP and IFRS. However, because the Company intends to adopt the fair value method of accounting for investment properties, this difference will not have a material impact on the Company's consolidated financial statements.

Other Areas

Management has also considered differences and exemptions in the areas of employee future benefits, asset retirement obligations, cumulative currency translation adjustments, re-designation of previously recognized financial instruments, share-based payments, borrowing costs and variable interest entities. These differences do not have a material effect on the consolidated balance sheet of the Company as at January 1, 2010 and are not expected to have a material effect in the future based upon the Company's current operations.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The Company's major shareholder reports certain financial information under IFRS. The most significant difference between IFRS and Canadian generally accepted accounting principles (“Canadian GAAP”) for this purpose is that income-producing shopping centres (“Shopping Centres”) and land and shopping centres under development (“Development Properties”) are presented at fair value under IFRS as opposed to cost less accumulated amortization under Canadian GAAP. In addition, the values of deferred leasing costs, straight-line rents receivable and intangible assets and liabilities related to Shopping Centres are not presented separately under IFRS as their values are incorporated within the values of the Shopping Centres. Prior to January 1, 2009, Development Properties were presented at cost under IFRS. In addition, First Capital Realty's future income tax liability increases as a result of the change in value of the Shopping Centres under IFRS. This information is set out in the table below:

(millions of dollars)	2009	2008
IFRS value of Shopping Centres and Development Properties ⁽¹⁾	\$ 4,159	\$ 3,918
Canadian GAAP value of Shopping Centres and Development Properties ⁽²⁾	3,572	3,377
Difference between IFRS value and Canadian GAAP value	587	541
Increase in future income taxes as a result of the difference in value	(111)	(98)
Difference in value, net of taxes	\$ 476	\$ 443

⁽¹⁾ IFRS changed in the first quarter of 2009 such that development properties are now recorded at fair value. The December 31, 2008 IFRS value includes development properties at cost.

⁽²⁾ Includes the net book value of Shopping Centres, Development Properties, deferred leasing costs, straight-line rents receivable and intangible assets and liabilities. The Canadian GAAP value at December 31, 2008 has been restated for a change in accounting standards.

At December 31, 2009 approximately 42% (December 31, 2008 – 62%) of the total fair value was determined through independent appraisals conducted by a nationally recognized appraisal firm. The properties were appraised on an individual basis, with no portfolio effect considered. The remainder of the properties were appraised internally by Management. The appraisals were prepared to comply with the fair value model described in the IAS 40 – Investment Property and the International Valuation Standard.

The determination of which properties are externally appraised and which are internally appraised by Management is based on a combination of factors, including: property size, the level of redevelopment and leasing activity, local market conditions as well as ensuring that there is a representative sample of properties from each market in which the Company operates. In addition, Management ensures that each property in the portfolio is externally appraised at least once every three years. In completing the internal appraisals, Management used capitalization rate information obtained from the appraisals completed by the external appraisers for comparable properties in the same markets. In addition, for the properties internally appraised, Management used the last external appraisal completed for the property, and made updates based upon material leasing activity and material changes in local market conditions.

The primary method of appraisal was the income approach, since purchasers typically focus on expected income. For each property, the appraisers conducted and placed reliance upon a) a direct capitalization method, which is the appraiser's estimate of the relationship between value and stabilized income, normally in the first year and b) a discounted cash flow method, which is the appraiser's estimate of the present value of future cash flows over a specified horizon, including the potential proceeds from a deemed disposition. The determination of these values required Management and the appraisers to make estimates and assumptions that affect the values presented, and actual values in a sales transaction may differ from the values shown above.

Based on these valuation methods, the aggregate weighted average stabilized capitalization rates on the Shopping Centres as at December 31, 2009 and 2008 were 7.39% and 7.38%, respectively.

CONTROLS AND PROCEDURES**Disclosure Controls and Procedures**

First Capital Realty Management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports is recorded, processed, summarized and reported accurately.

The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated or caused the evaluation of, under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2009, and have concluded that such disclosure controls and procedures were designed and operating effectively.

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles.

Management evaluated the design and effectiveness of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the year ended December 31, 2009. This evaluation was performed by the Chief Executive Officer and the Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation which was completed using the COSO framework published by the Committee of Sponsoring Organizations of the Treadway Commission, the Chief Executive Officer and Chief Financial Officer concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively.

The Company did not make any material changes to the design of internal controls over financial reporting during the year ended December 31, 2009 that have had, or are reasonably likely to have a material effect on the Company's internal controls over financial reporting. On an ongoing basis, the Company will continue to analyze its controls and procedures for potential areas of improvement.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, the Company intends to take whatever steps necessary to minimize the consequences thereof.

RISKS AND UNCERTAINTIES

First Capital Realty, as an owner of income-producing properties and development land, is exposed to numerous business risks in the normal course of its business that can impact both short-and long-term performance. Income-producing and development properties are affected by general economic conditions and local market conditions such as oversupply of similar properties or a reduction in tenant demand. It is the responsibility of Management, under the supervision of the Board of Directors, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk the Company encounters in conducting its business and the manner in which it takes action to minimize the impact of these risks are outlined below. The Company's current Annual Information Form provides a more detailed discussion of these and other risks and can be found on SEDAR at www.sedar.com and the Company's website at www.firstcapitalrealty.ca.

Operating Risk

All real property investments are subject to a degree of risk. They are affected by various factors including changes in general economic conditions (such as the availability of long-term mortgage funds) and in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available space, the ability of the owner to provide adequate maintenance at an economic cost, and various other factors. In addition, fluctuations in interest rates may affect the Company. The Company's portfolio has major concentrations in Quebec, Ontario, Alberta and British Columbia. As a result, economic and real estate conditions in these regions will significantly affect the Company's revenues and the value of its properties.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. The Company's income and funds available for distributions to shareholders would be adversely affected if a significant tenant or a number of smaller tenants were to become unable or unwilling to meet their obligations to the Company or if the Company was unable to lease a significant amount of available space in its properties on economically favourable lease terms. The Company is also subject to competition from other developers, managers and owners in seeking tenants.

The following chart summarizes the top 40 tenants of the Company, which together represent approximately 58.4% of the Company's annualized minimum rent from its Canadian portfolio as at December 31, 2009.

Tenant	Number of Stores	Square Feet	Percent of Total Canadian Gross Leasable Area	Percent of Total Canadian Annualized Minimum Rent	DBRS Organization Credit Rating	S&P ⁽¹⁾ Organization Credit Rating	Moody's Organization Credit Rating
Top Forty Tenants							
1 Sobeys (including Western Cellars)	49	1,673,000	8.0%	7.4%	BBB	BBB-	
2 Shoppers Drug Mart	62	880,000	4.2%	6.6%	A (LOW)	BBB+	Ba1
3 Loblaws	28	1,436,000	6.9%	5.2%	BBB	BBB	
4 Metro	29	1,103,000	5.3%	4.3%	BBB	BBB	
5 Zellers/Home Outfitters	20	1,755,000	8.4%	3.8%			
6 Canadian Tire	21	805,000	3.9%	3.4%	A (LOW)	BBB+	
7 TD Canada Trust	38	204,000	1.0%	2.1%	AA	AA-	Aaa
8 Royal Bank	35	182,000	0.9%	1.6%	AA	AA-	Aaa
9 Canada Safeway	7	345,000	1.7%	1.4%	BBB	BBB	Baa2
10 Staples	12	262,000	1.3%	1.1%		BBB	Baa2
11 LCBO	17	154,000	0.7%	1.1%	AA (LOW)	AA-	Aa1
12 Wal-Mart	4	473,000	2.3%	1.1%	AA	AA	Aa2
13 Bank of Nova Scotia	21	115,000	0.6%	1.1%	AA	AA-	Aa1
14 CIBC	23	116,000	0.6%	1.0%	AA	A+	Aa2
15 H.Y. Louie Group (London Drugs)	8	217,000	1.0%	1.0%			
16 Goodlife Fitness Club	9	215,000	1.0%	1.0%			
17 Rona	2	257,000	1.2%	1.0%	BBB	BBB-	
18 Rexall	17	136,000	0.7%	0.9%			
19 Dollarama	23	218,000	1.0%	0.9%		BB-	Ba1
20 Bank of Montreal	21	104,000	0.5%	0.9%	AA	A+	Aa2
21 SAQ	19	82,000	0.4%	0.8%	A (High)	A+	Aa2
22 Cara Operations	26	97,000	0.5%	0.8%			
23 Tim Hortons	37	103,000	0.5%	0.8%			
24 Rogers	35	102,000	0.5%	0.7%	BBB	BBB	Baa2
25 Blockbuster	22	106,000	0.5%	0.7%		B-	Caa2
26 Winners Merchants Inc.	5	177,000	0.9%	0.7%		A	A3
27 Reitmans	32	162,000	0.8%	0.7%			
28 Starbucks	32	52,000	0.2%	0.6%		BBB	Baa3
29 Future Shop	5	140,000	0.7%	0.6%		BBB-	Baa2
30 Yum! Brands	27	58,000	0.3%	0.5%		BBB-	Baa3
31 Save on Foods	3	143,000	0.7%	0.5%			
32 Longo's	2	78,000	0.4%	0.5%			
33 Pharmacie Jean Coutu	8	110,000	0.5%	0.5%			B3
34 Home Depot	2	219,000	1.1%	0.5%	A (LOW)	BBB+	Baa1
35 Subway	52	63,000	0.3%	0.5%			
36 Bell Canada	40	61,000	0.3%	0.4%	BBB	BBB+	Baa1
37 McDonald's	18	54,000	0.3%	0.4%		A	A3
38 Forzani Group	7	88,000	0.4%	0.4%			
39 Toys "R" Us (Canada) Ltd.	3	113,000	0.5%	0.4%		B	B3
40 Michaels Arts & Crafts	4	87,000	0.4%	0.4%		B-	Caa2
Total: Top 40 Tenants	825	12,745,000	61.4%	58.4%			

⁽¹⁾ Standard and Poor's

Lease Maturities

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced or, if renewed or replaced, that rental increases will occur. There can also be no assurance that a tenant will be able to fulfill its existing commitments under leases up to the expiry date. The failure to fulfill existing obligations under leases or to achieve renewals and/or rental increases may have an adverse effect on the financial condition of First Capital Realty.

First Capital Realty's lease maturities are spread on a property-by-property basis, which helps to generate a more stable cash flow and mitigate risks related to changing market conditions. Lease expirations in each of the next ten years range from 5.3% to 9.9% of the annualized minimum rent in the Company's portfolio.

The Company's lease maturity profile at December 31, 2009 is as follows:

Date ⁽¹⁾	Number of Stores	Occupied Square Feet	Percent of Total Square Feet	Annualized Minimum Rent at Expiration	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
Month-to-month	159	440,000	2.1%	\$ 6,906,000	2.1%	\$ 15.70
2010	473	1,347,000	6.5%	23,449,000	7.0%	17.41
2011	443	1,509,000	7.3%	23,933,000	7.1%	15.86
2012	486	1,838,000	8.8%	33,033,000	9.9%	17.97
2013	475	1,986,000	9.5%	33,271,000	9.9%	16.75
2014	394	1,756,000	8.4%	31,020,000	9.3%	17.67
2015	199	1,546,000	7.4%	23,135,000	6.9%	14.97
2016	126	1,207,000	5.8%	17,825,000	5.3%	14.76
2017	144	1,420,000	6.8%	21,192,000	6.3%	14.93
2018	170	1,299,000	6.2%	23,167,000	6.9%	17.84
2019	206	1,368,000	6.6%	25,549,000	7.6%	18.67
2020	41	494,000	2.4%	9,478,000	2.8%	19.18
Thereafter	138	3,823,000	18.4%	63,309,000	18.9%	16.56
Total/Average	3,454	20,033,000	96.2%	\$ 335,267,000	100.0%	\$ 16.74

⁽¹⁾ Excluding any contractual renewal options.

Financing and Repayment of Indebtedness

The Company has outstanding indebtedness in the form of mortgages, loans, credit facilities, senior unsecured debentures and convertible debentures and, as such, is subject to the risks normally associated with debt financing, including the risk that the Company's cash flow will be insufficient to meet required payments of principal and interest.

Debt service obligations reduce the funds available for operations, acquisitions, development activities and other business opportunities. There is a possibility that the Company's internally generated cash may not be sufficient to repay all of its outstanding indebtedness. Upon the expiry of the term of the financing on any particular property owned by the Company, refinancing on a conventional mortgage loan basis may not be available in the amount required or may be available only on terms less favourable to the Company than the existing financing. The current credit environment is characterized by lenders that have suffered losses as well as overall weakening of the economy. As a result, lenders may not have access to capital and may tighten their lending requirements, making it more difficult for the Company, in turn, to access this capital. The current environment has increased the difficulty of refinancing debt obligations. The Company may elect to repay certain indebtedness through the issuance of equity securities or the sale of assets, where appropriate. The Company's strategy of spreading the maturities of its debt is also helpful in mitigating its exposure to interest rate fluctuations.

Interest Rate Risk

Interest represents a significant cost in the ownership of real property. The Company has a total of \$608.8 million of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing in the three years ending December 31, 2012 at a weighted average interest rate of 5.86%. If these amounts were refinanced at an average interest rate that was 100 basis points different from the existing rate, the Company's interest cost would increase or decrease by \$6.1 million.

Credit Ratings

Changes or anticipated changes in the credit rating assigned by DBRS or Moody's to the Company's senior unsecured debentures may affect the Company's access to financial markets and its cost of borrowing.

Risk of Non-Collection of Straight-Line Rents Receivable

A significant portion of the Company's straight-line rent receivables will be payable by the tenants at dates up to 15 years in the future. Because of the inherent uncertainty of predicting economic trends and changes, consumer trends and specific tenant conditions, some or a significant portion of these straight-line rents receivable, which totalled \$37.6 million at December 31, 2009, may not be collected. Under Canadian GAAP, the Company records allowances for doubtful accounts on straight-line rents on a tenant-by-tenant basis, using specific, known facts and circumstances that exist in its portfolio at the time of the analysis. At December 31, 2009 the allowance for doubtful accounts related to straight-line rent receivables totalled \$5.8 million. The current allowance for doubtful accounts may not be adequate for future write-offs of these straight-line rents receivable.

Acquisition, Expansion and Development Risk

The key to the Company's ongoing success will be its ability to create and enhance value through the skill, creativity and energy of its Management team and the opportunities which the market presents. First Capital Realty will continue to seek out acquisition, expansion and selective development opportunities that offer acceptable risk adjusted rates of return, although the Company may not succeed in identifying such opportunities or may not succeed in completing them.

The Company competes for suitable real property investments with individuals, corporations, real estate investment companies, trusts and other institutions (both Canadian and foreign) which may seek real property investments similar to those desired by the Company. Many of these investors may also have financial resources, which are comparable to, or greater than, those of the Company. An increase in the availability of investment funds, and an increase of interest in real property investments, increases competition for real property investments, thereby increasing purchase prices and reducing the yield therefrom.

The increasingly competitive real estate market has led to lower capitalization rates for new acquisitions in certain of the markets in which the Company operates. Lower capitalization rates mean a smaller spread between the Company's cost of capital and return on acquisitions and may therefore have a negative impact on the Company's earnings growth.

Further, the Company's development commitments are subject to those risks usually attributable to construction projects, which include: (i) construction or other unforeseeable delays; (ii) cost overruns; (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; and (iv) increase in interest rates during the life of the development.

Risks of Foreign and Domestic Equity Investments and Borrowings

The Company may acquire investments in US or Canadian REITs or real estate investment vehicles from time to time. The value of the Company's investments of this nature is subject to the risks inherent in investments in equity securities, including the risk that the financial condition of the issuers of the equity securities held by the Company may become impaired, or that the general condition of the stock market may deteriorate. The investee companies are also subject to risks associated with real property ownership which are similar to those described for the Company itself. Common stocks are also susceptible to general stock market fluctuations with potentially volatile increases and decreases in value as market confidence in, and perceptions of, their issuers change.

Economic Conditions

The economic conditions in the markets in which the Company operates can have a significant impact on the Company's financial success. Adverse changes in general or local economic conditions can result in some retailers being unable to sustain viable businesses and meet their lease obligations to the Company, and may also limit the Company's ability to attract new or replacement tenants.

SHARE PRICE AND DIVIDEND HISTORY

	2009	2008	2007	2006
Average Closing Share Price				
1st Quarter	\$ 16.18	\$ 22.35	\$ 27.73	\$ 23.69
2nd Quarter	\$ 16.34	\$ 23.16	\$ 27.25	\$ 23.96
3rd Quarter	\$ 18.07	\$ 22.23	\$ 25.77	\$ 24.15
4th Quarter	\$ 20.29	\$ 18.48	\$ 25.10	\$ 26.24
Closing price, end of year	\$ 21.66	\$ 18.97	\$ 24.02	\$ 27.78
Dividend History (per Common Share)				
1st Quarter	\$ 0.32	\$ 0.32	\$ 0.31	\$ 0.30
2nd Quarter	\$ 0.32	\$ 0.32	\$ 0.31	\$ 0.31
August 14, 2009 dividend-in-kind	\$ 0.45	—	—	—
3rd Quarter	\$ 0.32 ⁽¹⁾	\$ 0.32	\$ 0.32	\$ 0.31
4th Quarter	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.31
Total	\$ 1.73	\$ 1.28	\$ 1.26	\$ 1.23
Total excluding dividend-in-kind	\$ 1.28	\$ 1.28	\$ 1.26	\$ 1.23

Dividend Yield on average closing price 6.31% 6.93% 5.10% 4.73%
(end of period annualized dividend)

⁽¹⁾ Amount represents the regular dividend. A dividend-in-kind of \$0.45 was distributed in addition to the regular dividend. See discussion of dividend-in-kind in "Equity One, Inc." section of this MD&A..

Quarterly Dividend

The Company announced that it will pay a first quarter dividend of \$0.32 per common share on April 13, 2010 to shareholders of record on March 26, 2010.

Shopping Centre Portfolio

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
ONTARIO					
1842-1852 Queen Street West	Toronto	2006	14,000	38.2%	Starbucks, CIBC
216 Elgin	Ottawa	2008	12,000	100.0%	Harvey's, Second Cup
Adelaide Shoppers	London	2005	19,000	100.0%	Shoppers Drug Mart, Wendy's
Ambassador Plaza	Windsor	1994	151,000	99.2%	CIBC, Scotiabank, Royal Bank of Canada, LCBO, Rogers Video, Zellers
Appleby Mall	Burlington	2004	171,000	100.0%	Fortinos (Loblaws), Pharma Plus, Bank of Montreal, TD Canada Trust, LCBO, Beer Store, Home Hardware
Bayview Lane Plaza	Markham	2003	44,000	85.9%	Bank of Montreal, Planet Organic
Bowmanville Mall	Bowmanville	2005	146,000	98.8%	Metro, Shoppers Drug Mart, Staples, The Beer Store, Dollarama, GoodLife Fitness
Brampton Corners	Brampton	2001	302,000	99.6%	Fortinos (Loblaws), Wal-Mart, HSBC, National Bank, Scotiabank, Kelsey's, Chapters
Brantford Mall Commons	Brantford	1995	296,000	100.0%	Zehrs (Loblaws), Wal-Mart, LCBO, Cineplex, Royal Bank of Canada, The Beer Store, Reitmans
Bridgeport Plaza	Waterloo	1994	219,000	99.1%	Sobeys, Zellers, Rogers Video, Tim Hortons, Bulk Barn
Brooklin Towne Centre	Whitby	2003	98,000	97.9%	Price Chopper (Sobeys), Shoppers Drug Mart, Scotiabank, Tim Hortons, LCBO
Burlingwood Shopping Centre	Burlington	2005	67,000	91.4%	No Frills (Loblaws), Pharma Plus, Tim Hortons
Byron Village	London	2002	89,000	100.0%	Metro, Pharma Plus, TD Canada Trust, Rogers Video, LCBO
Cedarbrae Mall	Toronto	1996	508,000	99.4%	No Frills (Loblaws), CIBC, Scotia Bank, Burger King, The Beer Store, Canadian Tire, Dollarama, Toys 'R' Us, Zellers, LCBO, Extreme Fitness
Chartwell Shopping Centre	Toronto	2005	163,000	96.1%	Price Chopper (Sobeys), Shoppers Drug Mart, Bank of Montreal, CIBC
Chemong Park Plaza	Peterborough	2001	68,000	97.6%	Sobeys, TD Canada Trust, Government of Canada, Meridian Credit Union
Clairfields Common	Guelph	2006	85,000	100.0%	Food Basics, Shoppers Drug Mart, TD Canada Trust, Scotiabank, Starbucks
College Square ⁽³⁾	Ottawa	2005	388,000	100.0%	Loblaws, Pharma Plus, Bank of Montreal, The Beer Store, LCBO, Tim Hortons, Home Depot, Reitmans, Rogers
Credit Valley Town Plaza	Mississauga	2003	101,000	100.0%	No Frills (Loblaws), Pharma Plus, CIBC, TD Canada Trust, Tim Hortons, Rogers Video
Danforth Sobeys	Toronto	2009	27,000	100.0%	Sobeys
Delta Centre	Cambridge	1998	79,000	100.0%	Price Chopper (Sobeys), Shoppers Home Health Care, Starbucks, Dollarama
Derry Heights Plaza	Milton	2008	95,000	100.0%	Shoppers Drug Mart, CIBC, Royal Bank of Canada, Tim Hortons, Pure Health and Fitness
Dufferin Corners	Toronto	2003	74,000	89.8%	Shoppers Drug Mart, TD Canada Trust, Royal Bank of Canada
Eagleson Cope Drive	Ottawa	2003	103,000	100.0%	Real Canadian Superstore (Loblaws)
Eagleson Place	Ottawa	2003	81,000	98.2%	Shoppers Drug Mart, Home Hardware, TD Canada Trust, Starbucks, Rogers Video, The Beer Store
Fairview Mall	St. Catharines	1994	390,000	99.2%	Food Basics (A&P), Zehrs ⁽¹⁾ (Loblaws), CIBC, Scotiabank, Costco, Future Shop, Mark's Work Wearhouse, Office Depot, Winners, Zellers, Sport Chek, LCBO
Fairway Plaza	Kitchener	2005	246,000	98.1%	Food Basics (A&P), Starbucks, Dollarama, Home Sense, Pier 1 Imports, Sport Chek, Winners, GoodLife Fitness, Reitmans
Gloucester City Centre	Ottawa	2003	345,000	96.3%	Loblaws, Pharma Plus, CIBC, Scotiabank, Tim Hortons, Zellers

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
ONTARIO (cont'd)					
Grimsby Square Shopping Centre	Grimsby	2005	169,000	100.0%	Sobeys, Shoppers Drug Mart, Royal Bank of Canada, McDonald's, Canadian Tire, Mark's Work Wearhouse, The Beer Store
Halton Hills Village	Georgetown	2007	112,000	97.7%	Metro, TD Canada Trust, LCBO, Tim Hortons
Harwood Plaza	Ajax	1999	218,000	99.1%	Food Basics (Metro), Shoppers Drug Mart, Scotiabank, Tim Hortons, Blockbuster, Dollarama, GoodLife Fitness
Humbertown Shopping Centre	Toronto	2006	139,000	94.9%	Loblaws, Shoppers Drug Mart, Royal Bank of Canada, Scotiabank, LCBO, Blockbuster
Hunt Club Place ⁽⁸⁾	Ottawa	2009	61,000	100.0%	T&T Supermarkets, Petro Canada
Hyde Park Plaza	London	2006	52,000	96.1%	Shoppers Drug Mart, Bank of Montreal, Starbucks
Laurelwood Shopping Centre	Waterloo	2007	92,000	100.0%	Sobeys, TD Canada Trust, Starbucks, LCBO
Loblaws Plaza	Ottawa	2005	128,000	92.2%	Loblaws, Royal Bank of Canada
Maple Grove Village	Oakville	2003	111,000	100.0%	Sobeys, Pharma Plus, CIBC, Tim Hortons, Rogers Video, The Beer Store
McLaughlin Corners ⁽³⁾	Brampton	2002	116,000	99.0%	Metro, Shoppers Drug Mart, Royal Bank of Canada, Pizza Hut, Rogers Video
Meadowvale Town Centre	Mississauga	2003	380,000	100.0%	Metro, Shoppers Drug Mart, Bank of Montreal, CIBC, TD Canada Trust, Tim Hortons, Blockbuster, Canadian Tire, LCBO, Premier Fitness, The Beer Store
Merchandise Building	Toronto	2004	52,000	78.8%	Metro
Midland Lawrence Plaza	Toronto	2002	81,000	100.0%	Price Chopper (Sobeys), TD Bank, Part Source (Canadian Tire)
Morningside Crossing	Toronto	2007	201,000	98.7%	Metro, Shoppers Drug Mart, Bank of Montreal, CIBC, TD Canada Trust, Goodlife, Dollarama, Starbucks, Blockbuster, Rogers, LCBO, Marks Work Wearhouse, Pizza Hut
Norfolk Mall	Tillsonburg	2004	88,000	100.0%	Zehrs (Loblaws) ⁽¹⁾ , Dollarama, Wal-Mart
Northfield Centre	Waterloo	1999	52,000	100.0%	Sobeys, Pharma Plus, Royal Bank of Canada, Tim Hortons, Rogers Video
Olde Oakville	Oakville	2006	116,000	100.0%	Whole Foods, Shoppers Drug Mart, HSBC, Royal Bank of Canada, Starbucks, Blockbuster, LCBO
Orleans Gardens ⁽³⁾	Ottawa	2005	110,000	91.2%	Your Independent Grocer (Loblaws), Pharma Plus, Rogers Video, Tim Hortons
Parkway Centre	Peterborough	1996	264,000	99.2%	Price Chopper (Sobeys), Zellers, Addition Elle, Dollarama, Reitmans, Sport Mart, Winners
Queenston Place	Hamilton	1995	179,000	94.8%	Zellers, Mark's Work Wearhouse, Penningtons (Reitmans), Aaron's Electronics, Hamilton Produce
Rutherford Marketplace	Vaughan	2009	96,000	100.0%	Longo's Supermarket, Shoppers Drug Mart, Royal Bank of Canada, LCBO, Second Cup
Queensway	Toronto	2006	67,000	100.0%	Panache Rotisseurs
Sheridan Plaza	Toronto	1995	168,000	100.0%	Food Basics (Metro), Zellers
Shoppes on Dundas	Oakville	2007	66,000	88.8%	Shoppers Drug Mart, TD Canada Trust, RBC Insurance, Starbucks
Shops at King Liberty	Toronto	2004	268,000	97.7%	Metro, LCBO, TD Canada Trust, Blockbuster, Starbucks, Royal Bank of Canada, GoodLife Fitness, First Capital Realty Inc., West Elm, Knoll
Stanley Park Mall	Kitchener	1997	190,000	99.3%	Zehrs (Loblaws), Zellers, Pharma Plus, TD Canada Trust, LCBO
Steeple Hill Shopping Centre	Pickering	2000	93,000	98.9%	Price Chopper (Sobeys), Shoppers Drug Mart, Royal Bank of Canada, Blockbuster
Stoneybrook Plaza	London	2006	55,000	100.0%	Sobeys, Pharma Plus, TD Canada Trust, Home Depot

SHOPPING CENTRE PORTFOLIO

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
ONTARIO (cont'd)					
Strandherd Crossing	Ottawa	2004	123,000	100.0%	Metro, Shoppers Drug Mart, Royal Bank of Canada, TD Canada Trust, Starbucks, Rogers Video, Good Life Fitness
Sunningdale Village	London	2006	73,000	100.0%	No Frills, Shoppers Drug Mart, Starbucks
Thickson Place	Whitby	1997	93,000	100.0%	Metro, CIBC, TD Canada Trust
Tillsonburg Town Centre ⁽²⁾	Tillsonburg	1994	281,000	94.4%	Zellers, Shoppers Drug Mart, CIBC, TD Canada Trust, Business Depot (Staples), Canadian Tire, LCBO, Mark's Work Wearhouse, Reitmans, Rogers Video, The Souce (Bell) Electronics Inc.
University Plaza	Windsor	2001	146,000	100.0%	Metro, Shoppers Drug Mart, Bank of Montreal, Canadian Tire, Dollarama
Valley Creek Plaza	Brampton	2008	18,000	92.5%	Bank of Nova Scotia
Waterloo Shoppers Drug Mart	Waterloo	2004	15,000	100.0%	Shoppers Drug Mart
Wellington Corners	London	1999	81,000	97.6%	Price Chopper (Sobeys), Shoppers Drug Mart, Starbucks, Montana's
Westney Heights Plaza	Ajax	2002	157,000	100.0%	Sobeys, Shoppers Drug Mart, CIBC, Scotiabank, TD Canada Trust, Starbucks, Rogers Video
Yonge-Davis Centre	Newmarket	2003	51,000	93.2%	Sleep Country, Fitness Souce
York Mills Gardens	Toronto	2004	169,000	97.5%	Longo's Supermarket, Shoppers Drug Mart, RBC, TD Canada Trust, Kelsey's, McDonald's, Second Cup, Pizza Hut, Wendy's, Rogers Video, Shoeless Joe's
Total – ONTARIO			9,316,000	98.2%	
QUEBEC					
Carrefour Charlemagne	Charlemagne	2006	163,000	100.0%	Rona, Sports Rousseau
Carrefour des Forges	Drummondville	2005	58,000	100.0%	IGA (Sobeys), SAQ
Centre D'Achats Ville Mont-Royal	Mount Royal	2007	160,000	83.9%	Provigo, Pharmaprix (Shoppers Drug Mart), Scotiabank, Blockbuster
Carrefour Don Quichotte	Île Perrot	2004	71,000	86.4%	Pharmaprix (Shoppers Drug Mart), CIBC
Carrefour du Plateau Grives	Gatineau	2008	28,000	100.0%	Jean Coutu, Royal Bank of Canada
Carrefour du Versant	Gatineau	2003	96,000	100.0%	IGA (Sobeys), Familiprix, Royal Bank of Canada, TD Canada Trust, SAQ, Quiznos, Tim Hortons, Dollarama
Carrefour Soumande	Québec City	2004	145,000	89.0%	Fruiterie 440, SAQ, Toys 'R' Us
Carrefour St. David	Québec City	2006	74,000	100.0%	Metro, Uniprix, TD Canada Trust, Starbucks
Carrefour St. Hubert	Longueuil	2002	148,000	93.0%	Super C, Jean Coutu, CIBC, Dollarama, SAQ, Second Cup, Quiznos, McDonald's
Centre commercial Beaconsfield	Beaconsfield	2002	112,000	86.8%	Metro, Pharmaprix (Shoppers Drug Mart), Royal Bank of Canada, SAQ, Tim Hortons
Centre commercial Côte St. Luc	Côte St. Luc	2002	162,000	94.0%	IGA (Sobeys), Jean Coutu, Royal Bank of Canada, SAQ, Blockbuster, Dollarama, Reitmans
Centre commercial Domaine	Montréal	2002	195,000	95.0%	Metro ⁽³⁾ , Uniprix, CIBC, Tim Hortons, Dollarama, Reitmans, Rossy, Zellers
Centre commercial Maisonneuve ⁽²⁾	Montréal	2003	114,000	100.0%	Provigo (Loblaws), Brunet, TD CanadaTrust, Canadian Tire, SAQ
Centre commercial Van Horne	Montréal	2002	79,000	100.0%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Royal Bank of Canada, Scotiabank, Tim Hortons
Centre commercial Wilderton	Montréal	2002	129,000	96.4%	Metro, Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Royal Bank of Canada, Dollarama, SAQ
Centre Kirkland/St. Charles	Kirkland	2006	115,000	100.0%	Uniprix, Bank of Montreal, CIBC, Dollarama, SAQ
Centre Maxi Trois Rivières	Trois Rivières	2003	121,000	98.5%	Maxi (Loblaws), Jean Coutu, Bank of Montreal, Tim Hortons, Blockbuster, Value Village
Édifice Gordon	Montréal	2005	19,000	87.4%	Pharmaprix (Shoppers Drug Mart)
Édifice Hooper	Sherbrooke	2005	141,000	91.5%	IGA Extra (Sobeys), Familiprix, Desjardins

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
QUEBEC (cont'd)					
Faubourg des Prairies	Montréal	2007	61,000	88.9%	IGA (Sobeys), Familiprix, SAQ
Galeries Brien	Repentigny	2002	61,000	100.0%	IGA (Sobeys), Uniprix
Galeries des Chesnaye	Lachenaie	2005	59,000	100.0%	IGA (Sobeys), Uniprix, Desjardins, Videotron, SAQ
Galeries Normandie	Montréal	2002	216,000	100.0%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Staples, Bank of Montreal, Desjardins, Royal Bank of Canada, Blockbuster, Dollarama, SAQ, Tim Hortons
IGA Tremblant	Mont-Tremblant	2004	38,000	100.0%	IGA (Sobeys)
La Porte de Châteauguay	Châteauguay	1995	132,000	100.0%	Tim Hortons, Blockbuster, Zellers
La Porte de Gatineau	Gatineau	1994	155,000	90.0%	Maxi (Loblaws), CIBC, TD Canada Trust, Future Shop, Lazy Boy Furniture, Toys 'R' Us ⁽¹⁾ , SAQ
Le Campanile & Place	Montréal	2003	106,000	97.6%	IGA (Sobeys), Jean Coutu, Pharmaprix (Shoppers Drug Mart), Bank of Montreal de Commerce
Les Galeries de Lanaudière ⁽³⁾	Lachenaie	2002	268,000	100.0%	TD Canada Trust, Bureau en Gros (Staples), Future Shop, Home Depot ⁽¹⁾ , Pier 1 Imports, Reitmans, Sears, Winners
Les Galeries de Repentigny	Repentigny	1997	121,000	100.0%	Super C (Metro), Pharmaprix (Shoppers Drug Mart), Tim Hortons
Les Promenades du Parc	Longueuil	1997	105,000	100.0%	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart), Laurentian Bank, National Bank, Tim Hortons, Blockbuster
Marche du Vieux Longueuil	Longueuil	2008	58,000	100.0%	Metro, Pharmaprix (Shoppers Drug Mart)
Place Bordeaux ⁽⁵⁾	Gatineau	2002	28,000	75.0%	Pharmaprix (Shoppers Drug Mart), National Bank
Place Cité Des Jeunes	Gatineau	2001	58,000	89.8%	Metro, Uniprix
Place de la Colline	Chicoutimi	2004	52,000	100.0%	Maxi (Loblaws), Uniprix, McDonald's, Dollarama
Place des Cormiers	Sept-Îles	2004	75,000	94.6%	Provigo (Loblaws), Bureau en Gros (Staples), SAQ
Place Fleury	Montréal	2002	108,000	100.0%	Metro, Pharmaprix (Shoppers Drug Mart), Bank of Montreal, Reitmans, SAQ
Place Kirkland	Kirkland	2006	59,000	88.9%	IGA (Sobeys), CIBC
Place Lorraine	Lorraine	2006	61,000	90.8%	Provigo (Loblaws), National Bank, SAQ
Place Michelet	Montréal	2005	59,000	100.0%	IGA Extra (Sobeys), TD Canada Trust, A&W, Sherwin Williams, St. Hubert
Place Nelligan ⁽⁴⁾	Gatineau	2002	57,000	100.0%	IGA (Sobeys), Citifinancial
Place Panama	Brossard	2006	94,000	83.9%	Loblaws ⁽¹⁾
Place Pierre Boucher	Boucherville Borough	2004	80,000	88.8%	Maxi (Loblaws), Pharmaprix (Shoppers Drug Mart), SAQ,
Place Pointe-aux-Trembles	Montréal	2002	118,000	93.3%	Metro, Jean Coutu, Rossy
Place Provencher	Montréal	2004	46,000	100.0%	Pharmaprix (Shoppers Drug Mart), Bureau en Gros (Staples)
Place Roland Therrien	Longueuil	2000	42,000	100.0%	Super C (Metro) ⁽¹⁾ , Scotiabank, Blockbuster
Place Seigneuriale	Québec City	2004	53,000	90.3%	Metro, Royal Bank of Canada, Nautilus Plus
Place Viau	Montréal	2002	152,000	100.0%	Zellers
Place Vilamont	Laval	2002	73,000	94.0%	Provigo (Loblaws), Jean Coutu, Laurentian Bank
Plaza Actuel	Longueuil	2006	58,000	48.4%	Pizza Hut, Pontiac Buick, Rotisserie St-Hubert
Plaza Delson	Delson	2002	185,000	92.6%	Loblaws, Pharmaprix (Shoppers Drug Mart), National Bank, Harveys, Tim Hortons, Hart, SAQ, Cineplex
Plaza Don Quichotte	Île Perrot	2004	134,000	100.0%	IGA (Sobeys), SAQ, Caisse Populaire, Desjardins, Laurentian Bank, Tim Hortons, Aubainerie, SAQ
Plaza Laval Élysée	Laval	2004	63,000	90.8%	Maxi, Pharmaprix (Shoppers Drug Mart), Laurentian Bank, Tim Hortons
Promenades Lévis	Lévis	2004	163,000	96.8%	Metro, Bank of Montreal, Jean Coutu, McDonald's, Easy Home
Queen Mary	Montréal	2006	6,000	100.0%	Tim Hortons, Couche Tard
St. Denis Pharmaprix	Montreal	2009	11,000	100.0%	Pharmaprix
Toys 'R' Us/Pier 1 Imports	Montréal	2002	52,000	100.0%	Pier 1 Imports, Toys 'R' Us
Village des Valeurs	Laval	2002	27,000	100.0%	Value Village
Total – QUEBEC			5,424,000	95.1%	

SHOPPING CENTRE PORTFOLIO

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
ALBERTA					
9630 Macleod Trail	Calgary	2006	134,000	100.0%	Rona, Bank of Montreal
Cochrane City Centre	Cochrane	2006	59,000	86.0%	Shoppers Drug Mart, Blockbuster, Starbucks
Cranston Market	Calgary	2009	80,000	100.0%	Sobeys, Subway, Scotiabank
Deer Valley	Calgary	2008	196,000	97.3%	Calgary Co-op, Shoppers Drug Mart, Royal Bank of Canada, Zellers
Dickson Trail Crossing ⁽⁷⁾	Airdrie	2009	38,000	100.0%	Rexall, Starbucks, Snap Fitness, Brewsters
Eastview Shopping Centre	Red Deer	2004	35,000	100.0%	Sobeys, Bank of Montreal, 7-Eleven
Fairmount Shopping Centre	Calgary	2006	60,000	95.8%	Sobeys, Royal Bank of Canada, Tim Hortons
Gateway Village	St. Albert	1994	105,000	99.0%	Safeway, Bank of Montreal, CIBC, Scotiabank, Tim Hortons
Kingsland Shopping Centre	Calgary	2005	46,000	99.6%	Shoppers Drug Mart, Starbucks
Lakeview Plaza	Calgary	2005	64,000	98.6%	IGA (Sobeys), Super Drug Mart, Scotiabank
London Place West	Calgary	1998	72,000	100.0%	London Drugs, Bank of Montreal, Rogers Video, Boston Pizza
McKenzie Towne Centre	Calgary	2003	174,000	99.4%	Sobeys, GoodLife Fitness, Rexall, TD Canada Trust, Blockbuster
Meadowbrook Centre	Edmonton	2009	42,000	100.0%	Sobeys, Blockbuster
Northgate Centre	Edmonton	1997	492,000	96.2%	Safeway, Royal Bank of Canada, Future Shop, Sport Mart, Zellers
Old Strathcona Shopping Centre	Edmonton	2003	78,000	95.3%	Dollarama, Canada Post
Red Deer Village	Red Deer	1999	217,000	98.0%	Sobeys, Shoppers Drug Mart, HSBC, TD Canada Trust, Starbucks, Canadian Tire, Mark's Work Wearhouse, Reitmans, Rogers Video, Sport Mart
Richmond Square	Calgary	2006	157,000	96.4%	Home Outfitters, Canadian Tire ⁽¹⁾ , GoodLife Fitness
Royal Oak Centre ⁽⁶⁾	Calgary	2003	336,000	98.7%	Sobeys, Wal-Mart, London Drugs, Royal Bank of Canada, Blockbuster, Home Outfitters, Reitmans
Sherwood Centre	Sherwood Park	1997	79,000	90.2%	Save-On-Foods ⁽¹⁾ , Shopper Drug Mart, Dollarama, CIBC, Rogers Video
Sherwood Towne Centre	Sherwood Park	1997	120,000	100.0%	Royal Bank of Canada, Home Depot ⁽¹⁾ , Home Sense, Mark's Work Wearhouse, Michaels, Staples
South Park Centre	Edmonton	1996	365,000	86.5%	Starbucks, Canadian Tire, Zellers, Toys 'R' Us ⁽¹⁾ , Sport Chek, Good Life Fitness, TD Canada Trust
Staples Gateway	Edmonton	2007	40,000	100.0%	Mark's Work Wearhouse, Staples, Home Depot
Towerlane Mall	Airdrie	2005	234,000	90.5%	Safeway, Staples, Gold's Gym, TD Canada Trust, Starbucks, Blockbuster, The Source, Dollarama
TransCanada Centre	Calgary	2006	184,000	100.0%	Safeway, Rexall, Scotiabank, Starbucks
Tuscany Market	Calgary	2003	86,000	100.0%	Sobeys, Rexall, Scotiabank, Starbucks
Uplands Common	North Lethbridge	2005	53,000	100.0%	Sobeys, Original Joe's
Village Market	Sherwood Park	1997	125,000	100.0%	Safeway, London Drugs, Scotiabank, Tim Hortons, Rogers
West Lethbridge Towne Centre	Lethbridge	1998	100,000	100.0%	Safeway, Scotia Bank, McDonald's, Starbucks, Blockbuster, Home Hardware
Westmount Shopping Centre	Edmonton	2007	528,000	86.0%	Safeway, Shoppers Drug Mart, Bank of Montreal, Scotia Bank, TD Canada Trust, Tim Hortons, Blockbuster, Dollarama, Home Depot, Zellers, Gold's Gym
Total – ALBERTA			4,298,000	95.1%	

Property	Location	Year Built or Acquired	Gross Leasable Area	Percent Occupied	Anchors and Major Tenants
BRITISH COLUMBIA					
Broadmoor Shopping Centre	Richmond	2005	29,000	100.0%	Safeway, Royal Bank of Canada, Coast Capital Savings
Coronation Mall	Duncan	2005	48,000	78.5%	Shoppers Drug Mart, TD Canada Trust, Blockbuster, BC Liquor Store
Gorge Shopping Centre	Victoria	2008	35,000	95.9%	Shoppers Drug Mart, Starbucks, Subway, Bell, Rogers, BC Liquor Store
Harbour Front Centre	Vancouver	2005	165,000	100.0%	Vancity, Kelsey's, McDonald's, Starbucks, Canadian Tire, Mark's Work Warehouse, Michaels, PetSmart
Langford Centre	Langford	2009	65,000	88.8%	Western Foods, Starbucks, Subway
Langley Crossing Shopping Centre	Langley	2005	127,000	95.9%	Shoppers Drug Mart, Citifinancial, Dollar Max, Chuck E Cheese's
Langley Mall	Langley	2005	132,000	96.6%	IGA Marketplace (H. Y. Louie Group), Shoppers Home Health Care, TD Canada Trust, Army & Navy
Longwood Station	Nanaimo	2007	104,000	90.6%	Thrifty Foods, TD Canada Trust, Boston Pizza
Pemberton Plaza	Vancouver	2005	96,000	99.0%	Save-On-Foods, Vancity, Starbucks
Port Place Shopping Centre	Nanaimo	2006	116,000	100.0%	London Drugs, BC Liquor Store, CIBC, Thrifty Foods
Scott 72 Centre	Delta	2004	165,000	92.3%	London Drugs, Staples, TD Canada Trust, Starbucks, Vancity, Little Gym
South Fraser Gate	Abbotsford	2008	33,000	97.8%	Shoppers Drug Mart
Staples Lougheed	Burnaby	2006	32,000	100.0%	Staples Business Depot
Terminal Park	Nanaimo	2006	29,000	88.8%	Bank of Montreal, BC Liquor Store, Save-On-Foods
Terra Nova Shopping Centre	Richmond	2005	72,000	92.6%	Save-On-Foods, Royal Bank of Canada, Pizza Hut, Starbucks
The Olive	Vancouver	2006	21,000	100.0%	Shoppers Drug Mart, Blenz
Time Marketplace	Vancouver	2004	49,000	100.0%	IGA Marketplace (H. Y. Louie Group), Shoppers Drug Mart, Boston Pizza, TD Canada Trust
West Oaks Mall ⁽³⁾	Abbotsford	2004	266,000	86.7%	Save-On-Foods, London Drugs, Future Shop, Michaels, Reitmans, CIBC, Pier 1 Imports, Sport Mart, Tim Hortons, Starbucks
Woodgrove Crossing	Nanaimo	2006	60,000	71.4%	Michaels, Sleep Country
Woolridge Building	Coquitlam	2006	38,000	100.0%	Home Outfitters
Total – BRITISH COLUMBIA			1,684,000	93.2%	
OTHERS					
Cole Harbour Shopping Centre	Dartmouth, NS	1997	50,000	93.9%	Sobeys ⁽¹⁾ , Canadian Tire ⁽¹⁾ , Shoppers Drug Mart, TD Canada Trust
Ropewalk Lane	St. John's, NF	1997	40,000	65.0%	Government of NFLD, Tim Hortons
Total – OTHERS			90,000	81.1%	
TOTAL			20,812,000	96.2%	

(1) Tenant (or other) owned.

(2) Interest is leasehold.

(3) 50% interest owned by First Capital Realty Inc.

(4) 75% interest owned by First Capital Realty Inc.

(5) 80% interest owned by First Capital Realty Inc.

(6) 60% interest owned by First Capital Realty Inc.

(7) 70% interest owned by First Capital Realty Inc.

(8) 33% interest owned by First Capital Realty Inc.

Management's Responsibility

The accompanying consolidated financial statements and Management's Discussion and Analysis ("MD&A") are the responsibility of Management and have been prepared in accordance with Canadian generally accepted accounting principles.

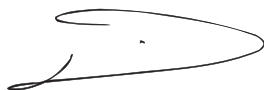
The preparation of financial statements and MD&A necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. In addition, in preparing this financial information Management must make determinations as to the relevancy of information to be included, and estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 10, 2010.

Management is also responsible for the maintenance of financial and operating systems which include effective controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are properly authorized and recorded, and that reliable financial information is produced. PricewaterhouseCoopers LLP have been engaged to assist Management and the Audit Committee in planning and conducting its annual internal audit plan.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities through its Audit Committee, whose members are not involved in day-to-day operations of the Company. Each quarter the Audit Committee meets with Management and, as necessary, with the independent auditors, Deloitte & Touche LLP, to satisfy itself that Management's responsibilities are properly discharged and to review and report to the Board on the consolidated financial statements.

As at December 31, 2009, our Chief Executive Officer and Chief Financial Officer evaluated, or caused the evaluation under their direct supervision, the disclosure controls and procedures and the internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that the disclosure controls and procedures and internal controls over financial reporting were designed and operating effectively.

In accordance with generally accepted auditing standards, the independent auditors conduct an examination each year in order to express a professional opinion on the consolidated financial statements.



Dori J. Segal
President and Chief Executive Officer
Toronto, Ontario
March 10, 2010



Karen H. Weaver, CPA
Executive Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of First Capital Realty Inc.

We have audited the consolidated balance sheets of First Capital Realty Inc. as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 3, 2010

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

December 31 (thousands of dollars)

	2009	2008
		<i>(restated-note 2)</i>
ASSETS		
Real Estate Investments		
Shopping centres <i>(note 3)</i>	\$ 3,288,759	\$ 3,040,257
Land and shopping centres under development <i>(note 4)</i>	224,772	281,959
Deferred leasing costs <i>(note 5)</i>	17,471	16,146
Intangible assets <i>(note 6)</i>	22,549	29,312
	3,553,551	3,367,674
Investment in Equity One, Inc. <i>(note 7)</i>	—	227,259
Loans, mortgages and other real estate assets <i>(note 8)</i>	59,220	32,480
	3,612,771	3,627,413
Other assets <i>(note 9)</i>	28,726	27,448
Amounts receivable <i>(notes 10 and 28)</i>	45,598	45,501
Cash and cash equivalents <i>(note 24(d))</i>	4,548	7,263
	\$ 3,691,643	\$ 3,707,625
LIABILITIES		
Mortgages, loans and credit facilities <i>(note 12)</i>	\$ 1,354,668	\$ 1,573,530
Accounts payable and other liabilities <i>(note 13)</i>	137,658	166,507
Intangible liabilities <i>(note 6)</i>	13,193	17,264
Senior unsecured debentures <i>(note 14)</i>	717,040	593,288
Convertible debentures <i>(note 15)</i>	329,739	218,247
Future income tax net liabilities <i>(note 20)</i>	43,502	43,643
	2,595,800	2,612,479
SHAREHOLDERS' EQUITY	1,095,843	1,095,146
	\$ 3,691,643	\$ 3,707,625

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:



Chaim Katzman
Chairman of the Board



Dori J. Segal
Director

Consolidated Statements of Earnings

Years ended December 31 (thousands of dollars, except per share amounts)

	2009	2008
		<i>(restated-note 2)</i>
REVENUE		
Property rental revenue	\$ 442,131	\$ 410,192
Interest and other income <i>(note 17)</i>	5,612	1,559
	447,743	411,751
EXPENSES		
Property operating costs	156,954	149,152
Interest expense <i>(note 18)</i>	125,465	113,685
Amortization		
Shopping centres	83,342	74,406
Deferred leasing costs	3,662	3,396
Intangible assets	7,497	7,783
Deferred financing fees	2,202	854
Other assets	2,005	1,305
Corporate expenses	22,122	21,577
	403,249	372,158
Income before the undernoted items	44,494	39,593
Equity income from Equity One, Inc. <i>(note 7)</i>	7,066	8,716
Other (losses) gains and (expenses) <i>(note 19)</i>	(1,414)	7,281
Income before income taxes	50,146	55,590
Income taxes <i>(note 20)</i>		
Current	533	1,985
Future	7,700	16,264
	8,233	18,249
Net income	\$ 41,913	\$ 37,341
Earnings per common share, basic and diluted <i>(note 21)</i>	\$ 0.45	\$ 0.43

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31 (thousands of dollars)

	2009	2008
NET INCOME	\$ 41,913	\$ 37,341
OTHER COMPREHENSIVE INCOME (LOSS)		<i>(restated-note 2)</i>
Unrealized foreign currency gains on translating self-sustaining foreign operations		
(Losses) gains arising during the year	(6,156)	12,043
Reclassification adjustment for dilution loss (gain) on investment in Equity One, Inc.	1,669	(724)
Reclassification adjustment for dividend-in-kind <i>(note 7)</i>	17,288	—
	12,801	11,319
Other comprehensive income (losses) of Equity One, Inc.		
Gains (losses) arising during the year	4,346	(1,933)
Reclassification adjustment for dilution loss (gain) included in net income	29	(11)
Reclassification adjustment for dividend-in-kind <i>(note 7)</i>	(1,124)	—
	3,251	(1,944)
Unrealized gains (losses) on cash flow hedges of interest rates		
Unrealized gains (losses) arising during the year	10,182	(16,443)
Reclassification adjustment for losses included in net income	2,621	—
Reclassification adjustment for dividend-in-kind <i>(note 7)</i>	4,407	—
	17,210	(16,443)
Change in cumulative unrealized gains (losses) on available-for-sale marketable securities		
Unrealized gains (losses) arising during the year	13,687	(6,645)
Reclassification adjustments for (gains) losses included in net income	(6,038)	55
	7,649	(6,590)
Other comprehensive income (loss) before income taxes	40,911	(13,658)
Future income tax expense (recovery) <i>(note 23(a))</i>	6,202	(5,832)
Other comprehensive income (loss)	34,709	(7,826)
COMPREHENSIVE INCOME	\$ 76,622	\$ 29,515

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(thousands of dollars)

	Accumulated Other Comprehensive Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Deficit and Accumulated Other Comprehensive Income/(Loss)	Share Capital	Contributed Surplus	Convertible Debentures Equity Component	Options, Deferred Share Units and Warrants	Total
	(restated-note 2)	(note 23(b))		(note 16)		(note 15)	(note 16)	
Shareholders' equity, December 31, 2008	\$ (380,728)	\$ (33,791)	\$ (414,519)	\$ 1,463,389	\$ 19,513	\$ 15,905	\$ 10,858	\$ 1,095,146
Changes during the year								
Net income	41,913	—	41,913	—	—	—	—	41,913
Issuance of common shares	—	—	—	83,187	—	—	—	83,187
Issuance of warrants	—	—	—	—	—	—	1,821	1,821
Dividends	(120,731)	—	(120,731)	—	—	—	—	(120,731)
Dividend-in-kind (note 7(c))	(63,525)	—	(63,525)	—	—	—	—	(63,525)
Payment of interest on convertible debentures	—	—	—	12,613	—	—	—	12,613
Equity component on issuance of convertible debentures	—	—	—	—	—	4,114	—	4,114
Conversion of convertible debentures	—	—	—	6,056	—	(189)	—	5,867
Exercise of warrants	—	—	—	135	—	—	(12)	123
Options vested	—	—	—	—	—	—	1,394	1,394
Exercise of options	—	—	—	444	—	—	(8)	436
Deferred share units	—	—	—	—	—	—	815	815
Exercise of deferred share units	—	—	—	—	—	—	(514)	(514)
Restricted share units	—	—	—	—	—	—	2,989	2,989
Exercise of restricted share units	—	—	—	—	—	—	(2,718)	(2,718)
Issue costs	—	—	—	(1,796)	—	—	—	(1,796)
Other comprehensive income	—	34,709	34,709	—	—	—	—	34,709
Shareholders' equity, December 31, 2009	\$ (523,071)	\$ 918	\$ (522,153)	\$ 1,564,028	\$ 19,513	\$ 19,830	\$ 14,625	\$ 1,095,843

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(thousands of dollars)

	Accumulated Other Comprehensive Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Deficit and Accumulated Other Comprehensive Income/(Loss)	Share Capital	Contributed Surplus	Convertible Debentures Equity Component	Options, Deferred Share Units and Warrants	Total
	(restated-note 2)	(note 23(b))		(note 16)		(note 15)	(note 16)	
Shareholders' equity, December 31, 2007	\$ (304,953)	\$ (25,965)	\$ (330,918)	\$ 1,238,286	\$ 19,513	\$ 15,905	\$ 7,974	\$ 950,760
Changes during the year								
Net income	37,341	—	37,341	—	—	—	—	37,341
Issuance of common shares	—	—	—	153,856	—	—	—	153,856
Dividends	(113,116)	—	(113,116)	—	—	—	—	(113,116)
Dividends reinvested in common shares	—	—	—	59,980	—	—	—	59,980
Payment of interest on convertible debentures	—	—	—	12,891	—	—	—	12,891
Exercise of warrants	—	—	—	2,197	—	—	(139)	2,058
Options vested	—	—	—	—	—	—	1,613	1,613
Exercise of options	—	—	—	785	—	—	(29)	756
Deferred share units	—	—	—	—	—	—	597	597
Restricted share units	—	—	—	—	—	—	2,249	2,249
Exercise of restricted share units	—	—	—	—	—	—	(1,407)	(1,407)
Issue costs	—	—	—	(4,606)	—	—	—	(4,606)
Other comprehensive loss	—	(7,826)	(7,826)	—	—	—	—	(7,826)
Shareholders' equity, December 31, 2008	\$ (380,728)	\$ (33,791)	\$ (414,519)	\$ 1,463,389	\$ 19,513	\$ 15,905	\$ 10,858	\$ 1,095,146

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31 (thousands of dollars)

	2009	2008
		<i>(restated-note 2)</i>
CASH FLOW PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	\$ 41,913	\$ 37,341
Items not affecting cash <i>(note 24(a))</i>	105,877	98,012
Deferred leasing costs	(5,022)	(4,033)
Dividends received from Equity One, Inc. <i>(note 7)</i>	12,452	18,193
Net change in non-cash operating items <i>(note 24(b))</i>	(6,592)	(1,994)
Cash provided by operating activities	148,628	147,519
INVESTING ACTIVITIES		
Acquisition of shopping centres <i>(note 3)</i>	(59,039)	(56,704)
Acquisition of land and shopping centres held for development <i>(note 4)</i>	(10,273)	(11,887)
Proceeds from disposition of shopping centre	4,756	—
Proceeds from disposition of land held for development	70	10,581
Expenditures on shopping centres	(35,309)	(26,619)
Expenditures on land and shopping centres under development <i>(note 4)</i>	(168,110)	(227,775)
Changes in accounts payable and accrued liabilities related to investing activities	(15,595)	32,908
Investment in common shares of Equity One, Inc. <i>(note 7)</i>	—	(1,263)
Changes in loans, mortgages and other real estate assets <i>(note 24(c))</i>	50,640	(30,520)
Cash used in investing activities	(232,860)	(311,279)
FINANCING ACTIVITIES		
Mortgage financings, loans and credit facilities		
Borrowings, net of financing costs	621,208	552,708
Principal instalment payments	(38,917)	(38,139)
Other repayments on maturity	(685,930)	(452,273)
Purchases of senior unsecured debentures <i>(note 14)</i>	(1,145)	(2,543)
Issuance of senior unsecured debentures, net of issue costs	124,000	—
Issuance of convertible debentures, net of issue costs <i>(note 15)</i>	120,071	—
Issuance of common shares, net of issue costs	57,771	149,797
Issuance of warrants, net of issue costs	1,821	—
Cash balance included in dividend-in-kind <i>(note 7)</i>	(492)	—
Payment of dividends	(118,192)	(49,312)
Cash provided by financing activities	80,195	160,238
Effect of currency rate movement on cash balances	1,322	334
Decrease in cash and cash equivalents	(2,715)	(3,188)
Cash and cash equivalents, beginning of the year	7,263	10,451
Cash and cash equivalents, end of the year <i>(note 24(d))</i>	\$ 4,548	\$ 7,263

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

1. SIGNIFICANT ACCOUNTING POLICIES

First Capital Realty Inc. (the "Company") is incorporated under the laws of Ontario to engage in the business of acquiring, developing, redeveloping, owning and operating neighbourhood and community shopping centres. The Company's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles. The Company's significant accounting policies are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and trusts, and the Company's proportionate share of assets, liabilities, revenues and expenses of partnership, co-ownership and limited liability corporate ventures, which are accounted for using the proportionate consolidation method. The Company's investment in Equity One, Inc. was accounted for using the equity method as the Company exercised significant influence over this investment prior to the dividend-in-kind (note 7).

(b) Shopping Centres

Shopping centres are stated at cost less accumulated amortization.

The purchase price of shopping centre properties is allocated to land, building, deferred leasing costs and intangibles including lease origination costs associated with in-place leases, the value of above- and below-market leases, and the value of tenant relationships, if any.

Allocations of the purchase price are generally based on the following criteria:

- (i) Land is recorded at its estimated fair value.
- (ii) Buildings are recorded at depreciated replacement cost based on estimates of prevailing construction costs for buildings of a similar class and age.
- (iii) Tenant improvements are recorded at depreciated replacement cost based on estimates of prevailing construction costs, taking into account the condition of tenants' premises.
- (iv) Lease origination costs are determined based on estimates of the costs that would be required for the existing leases to be put in place under the same terms and conditions. These costs include leasing commissions, foregone rent and operating cost recoveries during an estimated lease-up period.
- (v) Values ascribed to above- and below-market in-place leases are determined based on the present value of the difference between the rents payable under the terms of the in-place leases and estimated market rents.
- (vi) Tenant relationship values are determined based on the net costs avoided if the tenants were to renew their leases at the end of the existing term, adjusted for the estimated probability that the tenants will renew.

For practical reasons, the purchase price allocation of property acquisitions which occur at or near year-end are estimated based on the Company's history and are subsequently evaluated and adjusted as necessary.

(c) Land and Shopping Centres Under Development

Land and shopping centres under development are stated at cost. Cost includes all expenditures incurred in connection with the acquisition, development, redevelopment and initial leasing of the properties. These expenditures include acquisition costs, construction costs, initial leasing costs, other direct costs, building improvement costs and carrying costs. Carrying costs (including property taxes and interest on both specific and general debt, incremental direct internal costs and net operating results) are capitalized to the cost of the properties until the accounting completion date (which is defined as the earlier of the completion of tenant improvements or one year from the cessation of major construction activity). Upon completion, the properties are classified as shopping centres.

(d) Deferred Leasing Costs

Deferred leasing costs include leasing costs incurred through leasing activities.

(e) Intangible Assets and Liabilities

Intangible assets and liabilities include lease origination costs associated with in-place leases, the value of the above- and below-market leases, and the value of customer relationships, allocated to existing tenants in acquired shopping centres.

(f) Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that the net cumulative future cash flows of a long-lived asset are less than its carrying value, the long-lived asset is written down to its fair value. Cumulative future cash flows represent the undiscounted estimated future cash flow expected to be received from the long-lived asset. Assets reviewed for impairment under this policy include shopping centres, land and shopping centres under development, intangible assets, and furniture, fixtures and equipment.

(g) Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost less accumulated amortization.

(h) Marketable Securities

Marketable securities are classified as either held-to-maturity, held-for-trading, or available-for-sale.

- Held-to-maturity investments are measured at amortized cost. Losses due to impairment are included in current period net income.
- Held-for-trading investments are measured at fair value. All gains and losses are included in net income in the period in which they arise.
- Available-for-sale investments are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the investment is sold or when a loss is deemed to be other than temporary and subsequently recorded on the income statement.

(i) Property Rental Revenue

Property rental revenue includes rents earned from tenants under lease agreements, including percentage participation rents, property tax and operating cost recoveries, and incidental income, including lease cancellation payments. Property rental revenue also includes the amortization of above- and below-market leases allocated on asset acquisitions. Tenant inducements are deducted from rental revenue on a straight-line basis over the term of the tenant's lease. Revenue recognition under a lease begins when the tenant takes possession of, or controls, the physical use of the property subject to the lease. Generally this occurs on the lease commencement date or, where the Company is required to make additions to the property in the form of tenant improvements, upon substantial completion of those improvements.

The Company uses the straight-line method of recognizing rental revenue whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, a deferred rent receivable is recorded from the tenants for the current difference between the straight-line rent recognized as rental revenue and the rent that is contractually due from the tenants.

(j) Amortization

Buildings and improvements are amortized on a straight-line basis, so as to fully amortize the properties over their estimated useful lives, which vary, but do not exceed 40 years.

Deferred leasing fees incurred on securing leases, other than initial leases on shopping centres under development, are amortized over the term of such leases on a straight-line basis which typically range from 5 to 15 years in length. Tenant improvements are amortized over the estimated useful lives of such improvements.

Lease origination costs associated with in-place leases are amortized over the remaining lives of the associated leases.

The value of tenant relationships is amortized over the expected term of the relationship. In the event a tenant vacates its leased space prior to the contractual termination of the lease, and no rental payments are being made on the lease, any unamortized balance relating to that lease is expensed immediately.

Commitment fees and other costs incurred in connection with debt financing are amortized using the effective interest method of amortization which is presented as non-cash interest expense.

Furniture, fixtures and equipment are amortized on a straight-line basis over estimated useful lives ranging from three to ten years.

(k) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with original maturities of three months or less.

(l) Foreign Currency

The Company carried on business in the United States through operationally and financially self-sustaining entities up to August 14, 2009, the date of the dividend-in-kind (note 7(c)).

Assets and liabilities denominated in United States dollars were translated into Canadian dollars at period-end exchange rates. Revenues and expenses denominated in United States dollars were translated at the weighted average daily exchange rate for the periods being reported on. The resulting net gains or losses were accumulated and included in a separate component of shareholders' equity described as Accumulated Other Comprehensive Income.

Effective August 14, 2009, assets and liabilities denominated in United States dollars are translated at the rate of exchange prevailing at year-end and revenues and expenses denominated in United States dollars are translated at the weighted average daily exchange rate for the periods being reported on. Gains or losses on translation of these items are included in the consolidated statements of earnings in Other Gains (Losses) and (Expenses).

(m) Derivative Financial Instruments and Hedging

Derivative financial instruments are utilized by the Company in the management of its interest rate exposures. Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract. Changes in the fair values of derivative instruments are recognized in net income, except for derivatives that are designated as cash flow hedges. The fair value changes for the effective portion of such cash flow hedges are recognized in Other Comprehensive Income ("OCI"). The Company has no significant derivative instruments other than its interest rate swaps. The Company documents its eligibility for hedge accounting and assesses the effectiveness of these relationships based on the degree of expected future offsetting cash flows.

Interest rate swaps are recorded in the balance sheet at fair value. The change in fair value with respect to the swaps that have been designated is recorded in OCI. The change in fair value with respect to swaps that are not designated as hedges, as well as the ineffective portion of designated hedges, are recorded in net income in Other Gains (Losses) and (Expenses). The Company does not utilize derivative financial instruments for trading or speculative purposes.

(n) Convertible Debentures

The Company presents its convertible debentures in their liability and equity component parts where applicable, as follows:

- (i) The liability component represents the present value of interest and principal obligations to be satisfied by cash or common shares of the Company, where a variable number of common shares is required to settle the obligation, discounted at the rate of interest that would have been applicable to a debt-only instrument of comparable term and risk at the date of issue. As a result, the interest payments are treated as a reduction of the liability component, and the interest expense, calculated using the discount rate, is recorded as an increase in the liability component.
- (ii) The equity component of the convertible debentures is included in Shareholders' Equity in the consolidated balance sheets. The equity component consists of the value ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the debentures unless there are conversions.

(o) Income Taxes

Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which the differences are expected to reverse.

(p) Stock-Based Compensation Plans

The Company has stock-based compensation plans as described in note 16(d) and (e). The Company recognizes compensation expense for stock-based compensation awards at the fair value as at the granting date, over the vesting period.

(q) Financial instruments

(i) Recognition and measurement

Section 3855 of the Handbook establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial assets and financial liabilities classified as held-for-trading are required to be measured at fair value with gains and losses recognized in net earnings. Transaction costs are capitalized on instruments classified as held-for-trading. The Company's cash and cash equivalents and certain marketable securities are classified as held-for-trading.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization. For such financial instruments, transaction costs are capitalized on initial recognition. The main categories of the Company's financial assets and liabilities measured at amortized cost using the effective interest method include: (i) amounts receivable and payable; (ii) mortgages and loans receivable and mortgages payable; and (iii) debentures payable.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income ("OCI"). The Company's investment in Allied Properties REIT is classified as available-for-sale.

(ii) Fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, fair value may be based on observable current market transactions or on a valuation technique using market based inputs. The Company's financial assets include cash and cash equivalents, accounts receivable, investments in common shares and mortgages and loans receivable. The Company's financial liabilities include accounts payable and other liabilities, mortgages payable and credit facilities and debentures payable. Except as noted below, the carrying value of the Company's financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values of mortgages, debentures and designated hedging derivative instruments included in receivables and other assets and accounts payable and other liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

In determining fair values, the Company evaluates counterparty credit risks and makes adjustments to fair values and credit spreads based upon changes in these risks.

Fair value measurements recognized in the balance sheet are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- (i) Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date (the Company's marketable securities and cash and cash equivalents are measured using level 1 inputs);
- (ii) Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (the Company's interest rate swaps are measured using level 2 inputs); and
- (iii) Level 3 Inputs – inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

(r) Use of Estimates

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from such estimates. Significant estimates are required in the allocation of the purchase price of shopping centre acquisitions, determining future cash flows when assessing assets for impairment, determining the useful lives of assets for amortization purposes, determining the allocation of convertible debentures between debt and equity, future income taxes, assessing the allowance for doubtful accounts on trade accounts receivable and straight-line rent, the determination of the fair value of stock-based compensation and determining fair values of financial instruments for disclosure purposes.

2. CHANGES IN ACCOUNTING POLICIES

(a) Current accounting policy changes

Goodwill and Intangible Assets – CICA Section 3064

Effective January 1, 2009, the Company adopted on a retroactive basis with restatement of prior years CICA new accounting standard: *3064 Goodwill and Intangible Assets* which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset and related amendments to *Section 1000, Financial Statement Concepts*. Section 3064 replaces *Section 3062 Goodwill and Other Intangible Assets* and *Section 3450 Research and Development Costs*. As a result of applying this standard, the Company will no longer defer recoverable costs and match the expense to the period over which the costs are recovered from the tenants. The standard requires that the expenditure is either capitalized or expensed in the period it is incurred, based upon the nature of the expenditure. Amounts that are capitalized are added to the balance of shopping centres. Amounts that are expensed are charged to property operating costs.

The effect of adopting this standard is summarized as follows:

Effect on the balance sheet as at December 31	2009	2008
(thousands of dollars)	Increase (decrease)	
Shopping centres	\$ 14,728	\$ 10,818
Other assets	\$ (15,677)	\$ (11,478)
Shareholders' equity	\$ (949)	\$ (660)

Effect on the statement of earnings for the years ended December 31	2009	2008
(thousands of dollars)	Increase (decrease)	
Interest and other income	\$ (764)	\$ (582)
Property operating costs	\$ (2,097)	\$ (1,449)
Shopping centres amortization	\$ 1,614	\$ 956
Net income	\$ (281)	\$ (89)
Earnings per common share (basic and diluted)	\$ —	\$ —

(b) Future accounting policy changes

Future adoption of International Financial Reporting Standards ("IFRS") in Canada

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective for fiscal periods beginning on or after January 1, 2011. The Canadian Securities Administrators have provided issuers with the option of early adopting IFRS for Canadian reporting purposes. The Company does not intend to early adopt IFRS at this time. The Company is currently implementing its changeover plan and continuing to evaluate the effect on its consolidated financial statements. The Company also continues to revisit its implementation plan as the International Accounting Standards Board continues to issue new standards.

3. SHOPPING CENTRES

(thousands of dollars)	2009	2008
		(restated-note 2)
Land	\$ 825,732	\$ 756,244
Buildings and improvements	2,837,610	2,582,920
	3,663,342	3,339,164
Accumulated amortization	(374,583)	(298,907)
	\$ 3,288,759	\$ 3,040,257

During the year the Company acquired interests in five (2008 – four) income-producing shopping centres as follows:

(thousands of dollars)	2009	2008
Allocation of purchase price:		
Shopping centres	\$ 67,129	\$ 55,725
Shopping centres under development	—	4,237
Intangible assets	1,157	1,492
Intangible liabilities	(1,869)	(2,057)
Total purchase price, including acquisition costs	66,417	59,397
Less mortgages assumed on acquisition and vendor-take-back mortgages	(7,378)	(2,850)
Difference between principal amount and fair value of assumed mortgage financing	—	157
Net cash outlay for acquisitions, funded from cash and credit facilities	\$ 59,039	\$ 56,704

During the year ended December 31, 2009, the Company sold a shopping centre in Regina, Saskatchewan for cash proceeds of \$1.5 million and a vendor take-back mortgage of \$2.3 million (note 8(c)) resulting in a gain on disposition of \$0.5 million (note 19).

During the year ended December 31, 2008, the Company sold a shopping centre in Regina, Saskatchewan for proceeds of \$3.6 million resulting in a gain on disposition of \$1.6 million (note 19). An additional \$0.2 million of contingent proceeds was recorded in 2009.

4. LAND AND SHOPPING CENTRES UNDER DEVELOPMENT

The Company acquired land and shopping centres under development as follows:

(thousands of dollars)	2009	2008
Purchase price of land and shopping centres acquired for development or redevelopment, including acquisition costs	\$ 10,773	\$ 15,802
Less mortgages assumed on acquisitions and vendor-take-back mortgages	(500)	(4,024)
Difference between principal amount and fair value of assumed mortgage financing	—	109
Net cash outlay for acquisitions, funded from cash and credit facilities	\$ 10,273	\$ 11,887

(millions of dollars)	2009	2008
Completed developments transferred to shopping centres	\$ 268.4	\$ 288.7
Shopping centres transferred to land and shopping centres under development	\$ 34.7	\$ 44.2
Expenditures on development properties	\$ 168.2	\$ 227.8
Interest expense capitalized to development properties	\$ 18.4	\$ 20.7
Incremental direct internal costs capitalized to development properties	\$ 4.6	\$ 6.0

The costs to complete projects currently under development include \$38.0 million which are contractually committed at December 31, 2009.

During the year ended December 31, 2008, the Company sold four land parcels totalling 18.9 acres for gross proceeds of \$11.0 million, resulting in a total net gain of \$3.9 million (note 19). The Company also acquired an additional 25% interest in an existing land parcel for future development located in Calgary, Alberta in exchange for \$1.6 million.

5. DEFERRED LEASING COSTS

(thousands of dollars)	2009	2008
		<i>(restated-note 2)</i>
Cost	\$ 31,304	\$ 26,751
Accumulated amortization	(13,833)	(10,605)
Net book value	\$ 17,471	\$ 16,146

Incremental direct internal costs related to leasing activities totalling \$3.7 million (2008 – \$2.9 million) were capitalized during the year ended December 31, 2009.

6. INTANGIBLE ASSETS AND LIABILITIES

(thousands of dollars)	2009		
	Cost	Accumulated Amortization	Net Book Value
Intangible Assets			
Lease origination costs	\$ 43,369	\$ (26,010)	\$ 17,359
Above-market in-place leases	2,156	(1,473)	683
Tenant relationships	7,339	(2,832)	4,507
	\$ 52,864	\$ (30,315)	\$ 22,549
Intangible Liabilities			
Below-market in-place leases	\$ 22,487	\$ (9,294)	\$ 13,193

(thousands of dollars)	2008		
	Cost	Accumulated Amortization	Net Book Value
Intangible Assets			
Lease origination costs	\$ 44,051	\$ (20,968)	\$ 23,083
Above-market in-place leases	2,235	(1,344)	891
Tenant relationships	7,518	(2,180)	5,338
	\$ 53,804	\$ (24,492)	\$ 29,312
Intangible Liabilities			
Below-market in-place leases	\$ 24,990	\$ (7,726)	\$ 17,264

Values ascribed to above- and below-market in-place leases are amortized to property rental revenue.

7. INVESTMENT IN EQUITY ONE, INC.

(thousands of dollars)	2009	2008
Investment in Equity One, Inc., beginning of year	\$ 227,259	\$ 191,536
Equity income	7,066	8,716
Dividends received	(12,452)	(18,193)
Purchase of Equity One, Inc., common shares (a)	—	1,263
Other comprehensive income (losses) of Equity One, Inc.	4,375	(1,955)
Dilution adjustment (b)	669	2,359
Dividend-in-kind (c)	(204,350)	—
Cumulative currency effect	(22,567)	43,533
Investment in Equity One, Inc., end of year (c)	\$ —	\$ 227,259
Ownership interest in Equity One, Inc., end of year	—%	18.5%

Equity One, Inc. (“Equity One”) (NYSE:EQY), is a self-administered and self-managed real estate investment trust in the United States. The Company and Equity One are each indirectly controlled subsidiaries of Gazit-Globe Ltd. (“Gazit”), an Israeli corporation trading on the Tel Aviv Stock Exchange.

- (a) In 2008, the Company’s US subsidiaries acquired 96,500 common shares of Equity One at an average price of US\$10.75 per share.
- (b) Equity One’s common shares outstanding increased from 76.2 million to 85.8 million during the six-month period ended June 30, 2009, resulting in a reduction of the Company’s ownership interest in Equity One from 18.5% at December 31, 2008 to 16.4% at June 30, 2009. As a result, the Company has recorded a dilution gain of \$1.0 million before tax (\$0.7 million, net of tax) in the Investment in Equity One offset by reclassification adjustments of realized losses from other comprehensive income in the amount of \$1.7 million for a net dilution loss of \$0.7 million (note 19).

In 2008, Equity One’s common shares outstanding increased from 73.3 million to 76.2 million, resulting in a reduction of the Company’s ownership interest in Equity One from 19.1% at December 31, 2007 to 18.5% at December 31, 2008. As a result, the Company has recorded a dilution gain of \$2.9 million before tax (\$1.6 million, net of tax) during the year ended December 31, 2008 (note 19).

- (c) On August 14, 2009, First Capital Realty completed the dividend-in-kind of the Company’s interest in Gazit America Inc. (formerly known as First Capital America Holding Corp.) (“Gazit America”). Gazit America is a Canadian company that, indirectly, owns shares in Equity One (approximately 14.1 million shares), the debt secured by the Equity One shares (approximately US\$100 million) and certain other liabilities, including subordinated debt owing to First Capital Realty in the amount of approximately US\$36 million. As a result, First Capital Realty no longer has any ownership interest in Equity One. The transaction has been recorded under relevant accounting rules as a non-reciprocal transfer to shareholders and is therefore recorded at its carrying value, as opposed to fair value, which was \$0.45 per common share of the Company.

The carrying value of the dividend-in-kind of \$63.5 million at August 14, 2009 is set out below. The carrying value of the dividend was adjusted in the fourth quarter of 2009 when Equity One announced the final taxable percentage of its dividends for 2009.

(thousands of dollars)	
Investment in Equity One common stock	\$ 204,350
Term loans and credit facilities	(113,404)
Loan due to First Capital Realty	(39,590)
Reclassification of cumulative currency translation adjustment and other comprehensive income items	19,429
Other items, net	(7,260)
	\$ 63,525

8. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS

(thousands of dollars)	2009	2008
Non-revolving term loan receivable from Gazit America Inc. (a)	\$ 37,836	\$ —
Investments in marketable securities (b)	7,979	22,788
Vendor-take-back mortgage (c)	2,300	—
Other loans receivable (d)	11,105	9,692
	\$ 59,220	\$ 32,480

- (a) The non-revolving unsecured term loan receivable from Gazit America Inc. in the amount of US\$36.0 million, bears interest at 8.5% per annum calculated semi-annually, payable quarterly and is due June 19, 2014, subject to Gazit America Inc.'s option to extend the maturity date for a further five-year period. The principal amount of the loan is prepayable from and after August 14, 2012.
- (b) The Company invests from time to time in the securities of public real estate entities. These securities are recorded at market value. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income, while unrealized gains and losses on securities held-for-trading are recorded in net income.
- (c) The vendor-take-back mortgage obtained on the sale of a shopping centre bears interest at 7% per annum, payable monthly and is due on January 1, 2011. Its fair value approximates its carrying value.
- (d) The Company has funded its co-owners' share of certain development activities. The loans bear interest at an average rate of 6.9% (2008 – 7.1%) and are repayable from the co-owners' share of proceeds generated from refinancings or sales. The Company has taken assignments of the co-owners' interests in the co-ownerships as security for the loans receivable. The fair values of the Company's loans and mortgages receivable approximate carrying values.

9. OTHER ASSETS

(thousands of dollars)	2009	2008
		<i>(restated-note 2)</i>
Deferred financing costs on credit facilities (net of accumulated amortization of \$1.5 million (2008 – \$1.3 million))	\$ 3,543	\$ 1,040
Prepaid expenses	7,223	5,352
Deposit in trust on sale of property	—	3,360
Deposits related to property operations	7,691	9,989
Deposits and costs on properties under option	4,179	2,527
Fixtures, equipment and computer hardware and software (net of accumulated amortization of \$3.2 million (2008 – \$3.3 million))	6,090	5,180
	\$ 28,726	\$ 27,448

10. AMOUNTS RECEIVABLE

(thousands of dollars)	2009	2008
Trade receivables (net of allowances for doubtful accounts of \$3.1 million (2008 – \$3.4 million))	\$ 9,905	\$ 13,788
Rent revenue recognized on a straight-line basis (net of allowances for doubtful accounts of \$5.8 million (2008 – \$5.3 million))	31,805	26,835
Construction and development related chargebacks and receivables	1,887	3,844
Corporate and other amounts receivable	2,001	1,034
	\$ 45,598	\$ 45,501

The Company determines its allowance for doubtful accounts on a tenant-by-tenant basis taking account of lease terms, industry conditions, and the status of the tenant's account, among other factors. Accounts are written off only when all collection efforts have been exhausted.

11. CAPITAL MANAGEMENT

The Company manages its capital, taking into account the long-term business objectives of the Company, to provide stability and reduce risk while generating an acceptable return on investment over the long term to shareholders. The Company's capital structure currently includes common shares, convertible debentures and secured and unsecured term financings and revolving credit facilities which together provide the Company with financing flexibility to meet its capital needs. Primary uses of capital include development activities, acquisitions, capital improvements, leasing costs, debt principal repayments and the payment of dividends to shareholders. The actual level and type of future financings to fund these capital requirements will be determined based on prevailing interest rates, various costs of debt and/or equity capital, capital market conditions and Management's general view of the required leverage in the business.

The components of the Company's capital as at December 31, 2009 are set out in the table below:

(millions of dollars)	2009	2008
Liabilities (principal amounts outstanding)		
Mortgages – Canada	\$ 1,312	\$ 1,211
Loans and credit facilities – Canadian dollars	5	185
Loans and credit facilities – US dollars	38	178
Mortgages and credit facilities	1,355	1,574
Senior unsecured debentures principal	721	597
Convertible debentures principal	352	233
Shareholders' equity (based on closing share price of \$21.66 (2008 – \$18.97))		
Common shares (at market value)	2,080	1,707
	\$ 4,508	\$ 4,111

The Company's overall capital financing strategy includes maintaining debt in the range of 45% to 60% of total market capitalization. The Company monitors a number of financial ratios in conjunction with its financial planning. These ratios are set out in the table below:

	Guidelines	2009	2008
Debt to total market capitalization	45-60%	45.9%	52.6%
Debt to aggregate assets	<65%	50.3%	53.5%
EBITDA interest coverage excluding interest capitalized to development		2.50	2.54
Fixed charges coverage ratio based on EBITDA	>1.50	1.71	1.69
Unencumbered asset value ratio	>1.30	1.50	1.85

The above ratios include non-GAAP measures which are defined below:

Debt consists of mortgages, loans, credit facilities and senior unsecured debentures, net of cash on hand. Debt excludes convertible debentures if the Company pays interest in shares.

Aggregate assets consist of total assets plus accumulated amortization of shopping centres, deferred leasing costs and intangible assets, less cash.

Total market capitalization consists of the market value of the Company's common shares, the par value of senior unsecured debentures and convertible debentures and mortgages, loans and credit facilities.

EBITDA is calculated as net income, adding back income tax expense, interest expense per the income statement, amortization expense and excluding the impact of gains and losses and other non-cash items.

Fixed charges include financing costs plus principal payments on debt.

Unencumbered assets include the gross book value of assets that have not been pledged as security under any credit agreement or mortgage excluding land and shopping centres under development and future income tax assets. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt.

The Company's strategy involves maintaining and improving the above ratios to allow continued access to capital at a reasonable cost. The Company's senior unsecured debentures are currently rated BBB with a stable trend by Dominion Bond Rating Services and Baa(3) with a stable outlook by Moody's Investor Services.

The Company's long term financial objectives remained substantially unchanged during the past five years. Since becoming an investment grade rated company in May 2005, the Company has financed its growth through common shares and convertible debentures for the equity component and primarily through unsecured debentures and credit facilities for the debt component.

However, during the disruption of the credit and capital markets from the second half of 2007 through the first half of 2009, the Company accessed the secured financing market both in the form of mortgages and bank credit facilities to finance its activities. Senior unsecured financing was issued in the fourth quarter of 2009 and in January, 2010 as it has become available at a reasonable cost with stability returning to the financial and credit markets. The Company's long term financing strategy is based on maintaining maximum flexibility in accessing various forms of debt and equity capital and includes maintaining a pool of unencumbered assets and investment grade credit agency ratings. The Company periodically re-evaluates its overall financing and capital execution strategy to ensure the best access to available capital at the lowest possible cost.

The Company is subject to financial covenants in agreements governing its senior unsecured debentures and secured revolving credit facilities. The Company is in compliance with all financial covenants.

12. MORTGAGES, LOANS AND CREDIT FACILITIES

(thousands of dollars)	2009		
	Canada	US	Total
Fixed rate mortgages	\$ 1,312,032	\$ —	\$ 1,312,032
Secured revolving credit facilities			
Floating rate	4,800	37,836	42,636
	\$ 1,316,832	\$ 37,836	\$ 1,354,668

(thousands of dollars)	2008		
	Canada	US	Total
Fixed rate mortgages	\$ 1,210,568	\$ —	\$ 1,210,568
Secured term loans			
Floating rate hedged (with interest rate swaps)	—	60,764	60,764
Floating rate	—	62,558	62,558
Secured revolving credit facilities			
Floating rate	—	30,450	30,450
Unsecured revolving credit facilities			
Floating rate hedged (with interest rate swaps)	50,000	—	50,000
Floating rate	134,586	24,604	159,190
	\$ 1,395,154	\$ 178,376	\$ 1,573,530

Mortgages and revolving credit facilities are secured by shopping centres.

At December 31, 2009, the Company had \$303.6 million (2008 – \$121.0 million) of undrawn credit facilities available for acquisitions, development activities, and general corporate purposes.

Of the gross book value of real estate assets of \$3.9 billion as at December 31, 2009 (2008 – \$3.7 billion), approximately \$2.7 billion (2008 – \$2.0 billion) has been pledged as security under mortgages and the credit facilities. Real estate assets consist of shopping centres, land and shopping centres under development, deferred leasing costs, intangible assets and intangible liabilities.

On January 29, 2009, the Company closed on a three-year, \$75 million secured revolving credit facility with a Canadian chartered bank.

On March 5, 2009, the Company closed a three-year, \$450 million secured revolving credit facility with a syndicate of ten banks. The syndicate consists of seven Canadian banks and three Schedule III chartered banks. The new facility will be used to replace the Company's existing three-year \$350 million Senior Unsecured Revolving Credit Facility. As a result, \$0.7 million of unamortized deferred financing costs were recorded as a loss on settlement of debt (note 19).

On November 24, 2009, the Company reduced the \$450 million secured revolving credit facility by \$75 million to \$375 million. As a result, \$0.5 million of unamortized deferred financing costs were recorded as a loss on settlement of debt (note 19).

On December 30, 2009, the Company further reduced the secured revolving credit facility by \$90 million to \$285 million. As a result, \$1.0 million of unamortized deferred financing costs were recorded as a loss on settlement of debt (note 19).

Subsequent to December 31, 2009, the Company further reduced the secured revolving credit facility by \$35 million to \$250 million. As a result, \$0.3 million of unamortized deferred financing costs will be recorded as a loss on settlement of debt in 2010.

Also, subsequent to December 31, 2009, the Company reduced the \$75 million secured revolving credit facility to \$50 million which resulted in \$0.2 million of unamortized deferred financing costs being recorded as a loss on settlement of debt in 2010.

Canada

At December 31, 2009, the fair value of the Company's mortgages, loans and credit facilities was approximately \$1.4 billion (2008 – \$1.6 billion).

Based on the amount of Canadian and US dollar denominated floating rate debt as of December 31, 2009, a 1% change in prevailing interest rates would change annualized interest expense by approximately \$0.4 million.

Fixed rate mortgages bear interest at a weighted coupon interest rate of 6.18% at December 31, 2009 (2008 – 6.21%) and mature in years ranging from 2010 to 2025. The weighted average effective interest rate on fixed rate financing at December 31, 2009 was 6.15% (2008 – 6.17%).

Floating rate financing bears interest at floating rates determined by reference to Canadian prime lenders, bankers' acceptance rates or LIBOR rates ranging from 3.81% to 5.00% and matures in March 2012.

Principal repayments of Canadian dollar mortgages and credit facilities outstanding as at December 31, 2009 are as follows:

(thousands of dollars)	Principal Instalment Payments	Balance Maturing	Total	Weighted Coupon Interest Rate
2010	\$ 33,671	\$ 119,893	\$ 153,564	5.74%
2011	32,378	63,172	95,550	7.15%
2012	30,215	131,746	161,961	5.57%
2013	27,520	154,146	181,666	6.35%
2014	21,344	215,606	236,950	6.30%
Thereafter	49,483	440,217	489,700	5.89%
	194,611	1,124,780	1,319,391	6.05%
Unamortized deferred financing costs and premiums and discounts, net	—	—	(2,559)	
	\$ 194,611	\$ 1,124,780	\$ 1,316,832	

United States

Until August 14, 2009, the Company had US term loans and credit facilities outstanding with \$96.6 million (US\$87.8 million) bearing interest at LIBOR plus 280 basis points maturing in 2010, \$9.5 million (US\$8.6 million) bearing interest at LIBOR plus 140 basis points maturing in 2011 and \$7.7 million (US\$7.0 million) bearing interest at LIBOR plus 250 basis points maturing in 2010. These term loans and credit facilities formed part of the dividend-in-kind (note 7(c)).

The Company also makes drawings on its Canadian credit facilities in US dollars which bear interest at LIBOR plus 350 basis points. At December 31, 2009 these drawings amounted to \$37.8 million (US\$36 million) (2008 – \$24.6 million (US\$20.2 million)).

13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(thousands of dollars)	2009	2008
Trade payables and accruals	\$ 42,309	\$ 44,759
Construction and development payables and accruals	30,450	46,046
Interest payable	19,310	17,276
Dividends payable	30,734	28,801
Interest rate swaps at fair value (a)	1,204	17,655
Tenant deposits	9,819	9,297
Other liabilities	3,832	2,673
	\$ 137,658	\$ 166,507

(a) The balance at December 31, 2009 represents the notional amount of interest rate swaps which became unhedged in December 2009.

14. SENIOR UNSECURED DEBENTURES

(thousands of dollars)						2009	2008
Series	Date of Issue	Maturity Date	Interest Rate			Principal Outstanding	
			Coupon	Effective			
A	June 21, 2005	June 21, 2012	\$ 100,000	5.08%	5.29%	\$ 99,430	\$ 99,259
B	March 30, 2006	March 30, 2011	98,899	5.25%	5.51%	98,589	99,451
C	August 1, 2006	December 1, 2011	99,900	5.49%	5.67%	99,585	99,532
D	September 18, 2006	April 1, 2013	97,000	5.34%	5.51%	96,520	96,389
E	January 31, 2007	January 31, 2014	100,000	5.36%	5.52%	99,476	99,347
F	April 5, 2007	October 30, 2014	100,000	5.32%	5.47%	99,424	99,310
G	November 20, 2009	June 1, 2015	125,000	5.95%	6.12%	124,016	—
			\$ 720,799	5.42%	5.60%	\$ 717,040	\$ 593,288

2009 Activity

During the quarter ended June 30, 2009, the Company purchased \$1.01 million of Series B 5.25% senior unsecured debentures for \$1.0 million and \$0.1 million of the Series C 5.49% senior unsecured debentures for \$0.1 million resulting in a total gain of \$0.05 million (note 19).

On November 20, 2009, the Company issued \$125 million aggregate principal amount of Series G senior unsecured debentures due June 1, 2015 (the “Debentures”). The Debentures bear interest at a rate of 5.95% per annum payable semi-annually commencing June 1, 2010.

Subsequent to December 31, 2009, the Company issued Series H senior unsecured debentures which are discussed in “Subsequent Events” (note 29 (a)).

2008 Activity

On December 29, 2008, the Company purchased \$3 million of the Series D 5.34% senior unsecured debentures for \$2.5 million resulting in a gain of \$0.4 million (note 19).

The fair value of the senior unsecured debentures is approximately \$734 million at December 31, 2009 (2008 – \$518 million) based on closing bid spreads and current underlying Government of Canada bond yields.

15. CONVERTIBLE DEBENTURES

(thousands of dollars)				2009			2008		
Date of Issue	Maturity Date	Interest Rate		Principal	Liability	Equity	Principal	Liability	Equity
		Coupon	Effective						
December 19, 2005	September 30, 2017	5.50%	6.45%	\$ 76,750	\$ 72,366	\$ 2,314	\$ 83,000	\$ 77,797	\$ 2,503
November 30, 2006	September 30, 2017	5.50%	6.39%	100,000	94,606	6,015	100,000	94,084	6,015
June 29, 2007	September 30, 2017	5.50%	6.61%	50,000	46,685	7,387	50,000	46,366	7,387
September 18, 2009	December 31, 2016	6.25%	7.60%	75,000	69,579	2,632	—	—	—
December 30, 2009	June 30, 2017	5.70%	6.91%	50,000	46,503	1,482	—	—	—
		5.69%	6.77%	\$ 351,750	\$ 329,739	\$ 19,830	\$ 233,000	\$ 218,247	\$ 15,905

5.50% Convertible Debentures

In 2009, 772,313 common shares (2008 – 600,661) were issued for \$12.6 million (2008 – \$12.9 million) to pay interest to holders of the 5.50% convertible debentures.

The Company’s convertible debentures require interest payable semi-annually on March 31 and September 30. Holders of the 5.50% convertible debentures have the right to convert them into common shares. On August 14, 2009, the Company paid a dividend-in-kind which gave rise to an adjustment to the conversion price of the 5.50% convertible debentures. The conversion price in effect to December 31, 2011 was adjusted from \$27.00 to \$26.28 and the conversion price in effect from January 1, 2012 to maturity was adjusted from \$28.00 to \$27.25.

6.25% Convertible Debentures

On September 18, 2009, the Company issued \$75 million aggregate principal amount of 6.25% convertible unsecured subordinated debentures due December 31, 2016. The 6.25% debentures bear interest at a rate of 6.25% per annum payable semi-annually commencing March 31, 2010, and are convertible at the option of the holder into common shares of the Company at a conversion rate of 43.6681 common shares per \$1,000 principal amount of 6.25% debentures, which is equal to a conversion price of \$22.90 per common share.

The 6.25% Debentures which are listed on the Toronto Stock Exchange under the symbol FCR.DB.C, were issued pursuant to the Company's trust indenture dated December 19, 2005, as supplemented, and rank pari passu with the Company's outstanding 5.50% and 5.70% convertible unsecured subordinated debentures (TSX:FCR.DB.A, FCR.DB.B and FCR.DB.D).

5.70% Convertible Debentures

On December 30, 2009, the Company issued \$50 million aggregate principal amount of 5.70% convertible unsecured subordinated debentures due June 30, 2017. The 5.70% debentures bear interest at a rate of 5.70% per annum payable semi-annually commencing September 30, 2010, and are convertible at the option of the holder into common shares of the Company at a conversion rate of 33.3333 common shares per \$1,000 principal amount of 5.70% debentures, which is equal to a conversion price of \$30.00 per common share.

The 5.70% debentures are listed on the Toronto Stock Exchange under the symbol FCR.DB.D, were issued pursuant to the Company's trust indenture dated December 19, 2005, as supplemented, and rank pari passu with the Company's outstanding 5.50% and 6.25% convertible unsecured subordinated debentures (TSX:FCR.DB.A, FCR.DB.B and FCR.DB.C).

Other

The Company has the option of repaying the debentures on maturity through the issuance of common shares at 97% of a weighted average trading price of the Company's common shares. The Company also has the option of paying the semi-annual interest through the issuance of common shares valued in the same fashion.

As at December 31, 2009, subsidiaries of the Company's major shareholder, Gazit-Globe Ltd. ("Gazit"), owned \$157.4 million (December 31, 2008 – \$123.6 million) principal amount of the 5.50% outstanding convertible debentures and \$29,000 (December 31, 2008 – nil) principal amount of the outstanding 6.25% convertible debentures.

Based on the Toronto Stock Exchange ("TSX") closing bid prices, as at December 31, 2009, the market value of the principal amount of the convertible debentures was \$348 million (2008 – \$186 million).

16. SHAREHOLDERS' EQUITY

(a) Share Capital

The Company has an unlimited number of authorized preference shares and common shares. The preference shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution; preference shares are non-voting and rank in priority to the common shares with respect to dividends and distributions upon dissolution. No preference shares have been issued. The common shares carry one vote each and participate equally in the earnings of the Company and the net assets of the Company upon dissolution. Dividends are payable on the common shares as and when declared by the Board of Directors.

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

	Number of Common Shares	Stated Capital (thousands of dollars)
Issued and outstanding at December 31, 2007	79,681,929	\$ 1,238,286
Issuance of common shares (b)	6,740,000	152,449
Payment of interest on convertible debentures (note 15)	600,661	12,891
Exercise of warrants (c)	174,484	2,197
Exercise of options (d)	48,500	785
Private placement of shares (b)	71,959	1,407
Dividends reinvested in common shares (f)	2,685,048	59,980
Issue costs	—	(6,775)
Tax effect on issue costs	—	2,169
Issued and outstanding at December 31, 2008	90,002,581	\$ 1,463,389

	Number of Common Shares	Stated Capital (thousands of dollars)
Issued and outstanding at December 31, 2008	90,002,581	\$ 1,463,389
Issuance of common shares (b)	4,881,108	80,469
Payment of interest on convertible debentures (note 15)	772,313	12,613
Conversion of convertible debentures (note 15)	231,481	6,056
Exercise of warrants (c)	7,400	135
Exercise of options (d)	32,500	444
Private placement of shares (b)	118,011	2,718
Issue costs	—	(2,369)
Tax effect on issue costs	—	573
Issued and outstanding at December 31, 2009	96,045,394	\$ 1,564,028

(b) Issuance of Common Shares

2009 Activity

On February 17, 2009, the Company issued 1,431,108 shares at a book value of \$16.33 per share in exchange for 1,766,800 units of Allied Properties REIT at a ratio of 0.81 First Capital Realty shares per unit.

On August 5, 2009, the Company issued 3,450,000 units (the “Units”) at a price of \$17.10 per Unit for total gross proceeds of approximately \$59 million, including exercise of the over-allotment option by the underwriters. Each Unit consists of: (i) one common share of First Capital Realty (a “Common Share”), and (ii) two-thirds of a common share purchase warrant (a “Warrant”). The Common Shares and the Warrants were separable immediately upon closing of the offering. Each whole Warrant will entitle the holder to acquire at any time up to October 29, 2010, one Common Share of First Capital Realty at an exercise price equal to \$17.53, subject to adjustment. As part of the transaction, Gazit Canada Inc., an affiliate of the principal shareholder of First Capital Realty, purchased 600,000 units and a director of First Capital Realty purchased 15,000 Units at the offering price.

On December 15, 2009, the Company issued 118,011 shares to five members of the Company’s management at a price of \$20.87 per share for gross proceeds of \$2.5 million.

2008 Activity

On March 26, 2008, the Company issued 4,900,000 shares at a price of \$22.25 per share for gross proceeds of \$109 million.

On July 3, 2008, the Company issued 1,840,000 shares at a price of \$23.60 per common share for gross proceeds of \$43.4 million.

On December 15, 2008, the Company issued 71,959 shares to two members of the Company’s management at a price of \$17.72 per share for gross proceeds of \$1.3 million.

(c) Warrants

During 2009, a total of 7,400 share purchase warrants were exercised at \$17.53 per share resulting in proceeds to the Company of \$0.1 million. The equity component of the warrants exercised totalling \$12,000 was transferred to share capital.

At December 31, 2009, there were 2,304,100 outstanding share purchase warrants with an exercise price of \$17.53, expiring October 29, 2010.

During 2008, a total of 174,484 share purchase warrants were exercised at \$11.80 per share resulting in proceeds to the Company of \$2.1 million. The equity component of the warrants exercised totalling \$0.1 million was transferred to share capital.

(d) Stock Options

As of December 31, 2009, the Company is authorized to grant up to 7,025,000 (2008 – 7,025,000) common share options to the employees, officers and directors of the Company and third-party service providers. As of December 31, 2009, 1,920,847 (2008 – 2,603,411) 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 \$27.57.

Exercise Price Range	2009					2008				
	Common Share Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Options Vested	Weighted Average Exercise Price of Options Exercisable	Common Share Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Options Vested	Weighted Average Exercise Price of Options Exercisable
\$12.42 — \$17.30	1,024,912	\$ 15.66	7.7	281,700	\$ 15.52	323,200	\$ 15.32	4.6	323,200	\$ 15.32
\$19.11 — \$22.27	906,266	\$ 21.63	7.2	544,650	\$ 21.24	937,574	\$ 21.64	8.2	371,802	\$ 20.75
\$24.75 — \$27.57	1,677,517	\$ 26.85	7.0	1,080,186	\$ 26.45	1,697,857	\$ 26.85	8.0	612,734	\$ 26.28
\$12.42 — \$27.57	3,608,695	\$ 22.36	7.2	1,906,536	\$ 23.35	2,958,631	\$ 23.94	7.7	1,307,736	\$ 22.00

In 2009, \$1.3 million (2008 – \$1.6 million) was recorded as an expense due to the vesting of options.

	2009		2008	
	Common Share Options	Weighted Average Exercise Price	Common Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,958,631	\$ 23.94	2,627,089	\$ 24.27
Granted	760,524	\$ 15.71	625,376	\$ 22.23
Exercised	(32,500)	\$ 13.44	(48,500)	\$ 15.60
Forfeited	(77,960)	\$ 20.97	(245,334)	\$ 24.82
Outstanding, end of year	3,608,695	\$ 22.36	2,958,631	\$ 23.94
Options vested, end of year	1,906,536	\$ 23.35	1,307,736	\$ 22.00
Weighted average remaining life (years)	7.2		7.7	

On March 23, 2009, the Company granted 750,524 options with a strike price of \$15.69 and on August 14, 2009, the Company granted 10,000 options with a strike price of \$17.30, which had a total value of approximately \$0.8 million at the time of issue.

On March 3, 2008, the Company granted 605,376 options with a strike price of \$22.27 and on November 6, 2008, 20,000 options with a strike price of \$20.95, which had a total value of approximately \$1.1 million at the time of issue.

The fair value associated with the options issued was calculated using the Binomial Model for option valuation, assuming an average volatility of 14% on the underlying shares, a ten-year term to expiry, and the ten-year weighted average risk-free interest rate (typically, the ten-year Canada bond rate at the grant date). One third of the options vest on each of the three anniversary dates following the grant date.

(e) Share Unit Plans

The Company's share unit plans include a Directors Deferred Share Unit Plan, an Employee Restricted Share Unit Plan and a Chief Executive Officer Restricted Share Unit Plan.

	2009		2008	
	Deferred Share Units	Restricted Share Units	Deferred Share Units	Restricted Share Units
Outstanding, beginning of year	105,342	277,427	77,569	242,725
Granted	34,020	85,000	22,414	87,500
Dividends declared	11,712	35,101	5,359	19,161
Exercised	(25,050)	(118,011)	—	(71,959)
Forfeited	—	—	—	—
Outstanding, end of year	126,024	279,517	105,342	277,427
Share units available to be granted based on the current reserve	186,543	287,128	232,275	407,229
Expense recorded for the year	\$ 438,000	\$ 2,377,000	\$ 446,000	\$ 1,840,000

(f) Dividend Reinvestment Plan (“DRIP”)

The Company adopted a “DRIP” in May 2005 enabling shareholders who qualified to elect to participate in the DRIP, to reinvest in additional common shares at a discount of 2% of the weighted average trading price of the common shares on the TSX for the five consecutive trading days preceding the dividend payment date.

On August 7, 2008, the Company announced that it was suspending the DRIP. Accordingly, any dividend payable to shareholders subsequent to that date is not subject to the DRIP. The suspension is in effect unless and until further notice is given. The Company may consider from time to time reinstating the DRIP.

17. INTEREST AND OTHER INCOME

(thousands of dollars)	2009	2008
		<i>(restated-note 2)</i>
Interest income from non-revolving term loan receivable	\$ 1,247	\$ —
Interest, dividend and distribution income from marketable securities and cash investments	3,788	1,020
Interest income from development loans	577	539
	\$ 5,612	\$ 1,559

18. INTEREST EXPENSE

(thousands of dollars)	2009	2008
Mortgage, loans and credit facilities	\$ 75,318	\$ 65,700
Senior unsecured debentures	32,541	31,887
Convertible debentures	14,837	13,632
Other non-cash interest expense	2,769	2,466
Interest expense	125,465	113,685
Convertible debenture interest paid in common shares <i>(note 15)</i>	(12,613)	(12,891)
Change in accrued interest	(2,034)	560
Effective interest rate in excess of coupon rate on senior unsecured and convertible debentures	(984)	(864)
Interest paid in excess of coupon interest on assumed mortgages	1,189	1,436
Other non-cash interest expense	(2,769)	(2,466)
Interest capitalized to land and shopping centres under development <i>(note 4)</i>	18,441	20,723
Cash interest paid	\$ 126,695	\$ 120,183

19. OTHER GAINS (LOSSES) AND (EXPENSES)

(thousands of dollars)	2009	2008
		<i>(restated-note 2)</i>
Realized gains (losses) on sale of marketable securities	\$ 4,242	\$ (212)
Change in cumulative unrealized gains (losses) on marketable securities held-for-trading	1,952	(1,766)
Dilution (loss) gain on investment in Equity One, Inc <i>(note 7(b))</i>	(676)	2,898
(Loss) gain on settlement of debt <i>(notes 12 and 14)</i>	(2,394)	438
Gain on disposition of shopping centres <i>(note 3)</i>	737	1,631
Gains on disposition of land <i>(note 4)</i>	118	3,945
Gain on termination of hedge previously held in other comprehensive income	290	—
Realized losses on interest rate swaps (a)	(1,450)	—
Unrealized losses on interest rate swaps not designated as hedges (b)	(1,203)	—
Loss on foreign currency exchange	(278)	—
Severance and termination costs	(2,000)	—
Costs related to acquisition of 40% interest in First Capital Brookfield (a property management subsidiary)	(752)	—
Other income	—	347
	\$ (1,414)	\$ 7,281

- (a) The Company terminated \$20 million notional amount of Canadian B.A. based interest rate swaps on December 22, 2009 resulting in a loss of \$1.45 million.
- (b) As a result of the Company substantially paying off its Canadian credit facilities, a loss of \$1.2 million was recorded on its remaining \$100 million notional Canadian B.A. interest swaps reflecting the termination of the hedging relationship.

20. INCOME TAXES

The Company's business activities are carried out directly and through operating subsidiaries, partnership ventures and trusts in Canada and the United States. The income tax effect on operations depends on the tax legislation in each country and the operating results of each subsidiary, partnership ventures, and the parent company.

The following table summarizes the provision for income taxes:

(thousands of dollars)	2009	2008
Provision for income taxes on income at the combined Canadian federal and provincial income tax rate of 32.0% (2008 – 32.0%)	\$ 15,735	\$ 17,817
Increase (decrease) in the provision for income taxes due to the following items:		
US operations	—	1,548
Non-deductible interest expense	226	276
Change in future income tax rate	(7,497)	(2,515)
Expenses not deductible for tax purposes	(92)	1,344
Other items	(139)	(221)
Income taxes	\$ 8,233	\$ 18,249

The Company's future income tax net liabilities are summarized as follows:

(thousands of dollars)	2009	2008
Losses available for carry-forward	\$ (19,657)	\$ (11,636)
Canadian and US minimum tax credits	(915)	(884)
Investments	—	13,880
Shopping centres	59,218	43,676
Other	4,856	(1,393)
	\$ 43,502	\$ 43,643

At December 31, 2009, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately \$79 million (2008 – \$41 million), which have been recognized as future income tax assets and are available to reduce future Canadian taxable income. These tax-loss carry-forwards expire at various dates between December 31, 2010 and December 31, 2029.

21. PER SHARE CALCULATIONS

The following table sets forth the computation of per share amounts:

(thousands of dollars, except per share amounts)	2009	2008
Basic and diluted net income available to common shareholders	\$ 41,913	\$ 37,341
Denominator		<i>(restated-note 2)</i>
Weighted average shares outstanding for basic per share amounts:	93,759,034	87,127,555
Outstanding warrants	17,421	44,037
Outstanding options	92,360	88,632
Denominator for diluted net income available to common shareholders	93,868,815	87,260,224
Basic and diluted earnings per share	\$ 0.45	\$ 0.43

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

	Exercise Price	Number of Shares if Converted or Exercised	
		2009	2008
Common share options	\$ 19.11 – \$ 27.57	2,583,783	2,625,431
Convertible debentures – 5.50%	\$ 26.28	8,628,234	8,629,630
Convertible debentures – 6.25%	\$ 22.90	3,275,109	—
Convertible debentures – 5.70%	\$ 30.00	1,666,667	—

22. RISK MANAGEMENT

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(a) Interest Rate Risk

The Company attempts to structure its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate and other credit market fluctuations. A portion of the Company's mortgages, loans and credit facilities are floating rate instruments. From time to time, the Company may enter into interest rate swap contracts or other financial instruments to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount. The fair value of the Company's interest rate swaps (note 13) and other contracts is a negative value of approximately \$1.2 million (2008 – negative value of \$17.7 million) due to changes in interest rates since the contracts were entered into.

(b) Credit Risk

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable to fulfill their lease commitments or loans. The Company mitigates the risk of credit loss by investing in well-located properties in urban markets that attract quality tenants, ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. No one tenant represents more than 7.4% of annualized minimum rent. A tenant's success over the term of its lease and its ability to fulfill its lease obligations, is subject to many factors. There can be no assurance that a tenant will be able to fulfill all of its existing commitments and leases up to its expiry date. The Company's maximum exposure to credit risk is limited to the carrying amounts of its financial assets.

(c) Currency Risk

The Company maintains its accounts in Canadian dollars. At December 31, 2009, the Company has a US\$36 million non-revolving loan receivable (note 8). The Company manages the currency risk by maintaining a natural hedge of debt denominated in US dollars (note 12). However until August 14, 2009, a portion of its operations were located in the United States and therefore the Company was subject to foreign currency fluctuations which could, from time to time, impact its financial position and results. The Company's US operations were financed in part by US dollar-denominated loans and credit facilities, which were serviced by the cash flow generated by the Company's dividends from Equity One.

(d) Fair Values of Financial Instruments

The fair values of the Company's net working capital items approximate their recorded values at December 31, 2009 and 2008 due to their short-term nature. The fair values of the Company's other financial assets and liabilities are disclosed in notes 8, 12, 14 and 15.

(e) Liquidity Risk

Real estate investments are relatively illiquid. This will tend to limit the Company's ability to sell components of its portfolio promptly in response to changing economic or investment conditions. If the Company were required to quickly liquidate its assets, there is a risk that it would realize sale proceeds of less than the current book value of its real estate investments.

An analysis of the Company's contractual maturities of its material financial liabilities and other contractual commitments is set out below:

(thousands of dollars)	Total	Payments Due by Period			
		2010	2011–2012	2013–2014	Thereafter
Mortgages					
Scheduled amortization	\$ 194,611	\$ 33,671	\$ 62,593	\$ 48,864	\$ 49,483
Payments on maturity	1,119,980	119,893	190,118	369,752	440,217
Total mortgage obligations	1,314,591	153,564	252,711	418,616	489,700
Canadian revolving credit facilities	42,636	—	42,636	—	—
Senior unsecured debentures	720,799	—	298,799	297,000	125,000
Land leases	18,835	823	1,646	1,656	14,710
Total contractual obligations	\$ 2,096,861	\$ 154,387	\$ 595,792	\$ 717,272	\$ 629,410

In addition, the Company has contractual commitments with respect to its outstanding accounts payable and other liabilities (note 13) and interest payments on outstanding debt (notes 12, 14 and 15).

The Company manages its liquidity risk by staggering debt maturities; renegotiating expiring credit arrangements proactively; using undrawn lines of credit; and issuing equity when considered appropriate. As at December 31, 2009, \$42.6 million was drawn on the Company's Canadian revolving credit facility with a maturity of March 2012.

In addition, at December 31, 2009 the Company has \$22.4 million (2008 – \$20.0 million) of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's obligations related to its development projects.

23. SUPPLEMENTAL OTHER COMPREHENSIVE INCOME INFORMATION

(a) The tax effects relating to each component of other comprehensive income (loss) are as follows:

(Years ended December 31)	2009			2008		
	Before-tax Amount	Tax (recovery)	Net-of-tax Amount	Before-tax Amount	Tax (recovery)	Net-of-tax Amount
(thousands of dollars)						
Unrealized foreign currency gains on translating self-sustaining foreign operations	\$ 12,801	\$ —	\$ 12,801	\$ 11,319	\$ —	\$ 11,319
Other comprehensive gains (losses) of Equity One, Inc.	3,251	—	3,251	(1,944)	—	(1,944)
Unrealized gains (losses) on cash flow hedges of interest rates	17,210	5,038	12,172	(16,443)	(4,779)	(11,664)
Change in cumulative unrealized gain (losses) on available-for-sale marketable securities	7,649	1,164	6,485	(6,590)	(1,053)	(5,537)
Other comprehensive income (loss)	\$ 40,911	\$ 6,202	\$ 34,709	\$ (13,658)	\$ (5,832)	\$ (7,826)

(b) Accumulated Other Comprehensive Income (Loss)

(Years ended December 31)	2009			2008		
	Opening Balance	Net Change	Closing Balance	Opening Balance	Net Change	Closing Balance
	January 1 2009	During the Year	December 31 2009	January 1 2008	During the Year	December 31 2008
(thousands of dollars)						
Unrealized foreign currency (loss) gain on translating self-sustaining foreign operations	\$ (12,801)	\$ 12,801	\$ —	\$ (24,120)	\$ 11,319	\$ (12,801)
Other comprehensive losses of Equity One, Inc.	(3,251)	3,251	—	(1,307)	(1,944)	(3,251)
Losses on cash flow hedges of interest rates	(12,172)	12,172	—	(508)	(11,664)	(12,172)
Change in cumulative unrealized gain (losses) on available-for-sale marketable securities	(5,567)	6,485	918	(30)	(5,537)	(5,567)
Accumulated other comprehensive income (loss)	\$ (33,791)	\$ 34,709	\$ 918	\$ (25,965)	\$ (7,826)	\$ (33,791)

The Company expects the balance of the Accumulated Other Comprehensive Income at December 31, 2009 to be reclassified to net income in 2010.

24. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash from operating activities

(thousands of dollars)	2009	2008
		<i>(restated-note 2)</i>
Amortization	\$ 98,708	\$ 87,744
Amortization of above- and below-market leases	(2,323)	(2,253)
Rent revenue recognized on a straight-line basis	(5,053)	(5,374)
Gain on disposition of income producing property <i>(note 19)</i>	(737)	(1,631)
Gains on disposition of land <i>(note 19)</i>	(118)	(3,945)
Realized (gains) losses on sale of marketable securities <i>(note 19)</i>	(4,242)	212
Change in cumulative unrealized (gains) losses on marketable securities held-for-trading <i>(note 19)</i>	(1,952)	1,638
Loss (gain) on settlement of debt <i>(note 19)</i>	2,394	(438)
Non-cash compensation expense	4,209	3,899
Less cash settlement of restricted share units	(2,463)	(1,275)
Less cash settlement of deferred share units	(514)	—
Interest paid in excess of effective interest on assumed mortgages <i>(note 18)</i>	(1,189)	(1,436)
Effective interest rate in excess of coupon rate on senior unsecured and convertible debentures <i>(note 18)</i>	984	864
Convertible debenture interest paid in common shares <i>(note 15)</i>	12,613	12,891
Other non-cash interest expense <i>(note 18)</i>	2,769	2,466
Equity income from Equity One, Inc. <i>(note 7)</i>	(7,066)	(8,716)
Dilution loss (gain) on Equity One, Inc. investment <i>(note 7(b))</i>	676	(2,898)
Future income taxes	7,700	16,264
Loss on foreign currency exchange	278	—
Unrealized losses on interest rate swaps not designated as hedges	1,203	—
	\$ 105,877	\$ 98,012

(b) Net change in non-cash operating items

The net change in non-cash operating assets and liabilities consists of the following:

(thousands of dollars)	2009	2008
		<i>(restated-note 2)</i>
Amounts receivable	\$ 5,112	\$ (3,909)
Prepaid expenses	(1,870)	(3,789)
Trade payables and accruals	322	1,846
Tenant security and other deposits	2,691	(332)
Other working capital changes	(12,847)	4,190
	\$ (6,592)	\$ (1,994)

(c) Changes in loans, mortgages and other real estate assets

(thousands of dollars)	2009	2008
Increase in loans and mortgages receivable	\$ (3,714)	\$ (1,507)
Investment in marketable securities	(6,743)	(37,110)
Return of capital from investments in marketable securities	2,030	623
Proceeds from disposition of marketable securities	59,067	7,474
	\$ 50,640	\$ (30,520)

(d) Cash and cash equivalents

(thousands of dollars)	2009	2008
Cash	\$ 4,190	\$ 6,975
Term deposits	358	288
	\$ 4,548	\$ 7,263

(e) Interest and income taxes

(thousands of dollars)	2009	2008
Cash income taxes paid	\$ 1,358	\$ 2,251
Cash interest paid <i>(note 18)</i>	\$ 126,695	\$ 120,183

25. SEGMENTED INFORMATION

The Company and its subsidiaries operated in the shopping centre segment of the real estate industry in both Canada and the United States. Income by geographic segment for the year ended December 31, 2009, is summarized as follows:

(thousands of dollars)	Canada	US	Total
Property rental revenue	\$ 442,131	\$ —	\$ 442,131
Property operating costs	156,954	—	156,954
Income before the undernoted items	285,177	—	285,177
Equity income from Equity One, Inc.	—	7,066	7,066
Interest and other income	5,606	6	5,612
Other (losses) gains and (expenses)	(2,407)	993	(1,414)
Interest expense	120,101	5,364	125,465
Corporate expenses	21,792	330	22,122
Income before amortization	146,483	2,371	148,854
Amortization	98,654	54	98,708
Income before income taxes	\$ 47,829	\$ 2,317	\$ 50,146

Income by geographic segment for the year ended December 31, 2008, is summarized as follows:

(thousands of dollars)	Canada	US	Total
	<i>(restated-note 2)</i>		<i>(restated-note 2)</i>
Property rental revenue	\$ 410,192	\$ —	\$ 410,192
Property operating costs	149,152	—	149,152
Income before the undernoted items	261,040	—	261,040
Equity income from Equity One, Inc.	—	8,716	8,716
Interest and other income	1,559	—	1,559
Other gains and (expenses)	3,659	3,622	7,281
Interest expense	105,541	8,144	113,685
Corporate expenses	20,991	586	21,577
Income before amortization	139,726	3,608	143,334
Amortization	87,681	63	87,744
Income before income taxes	\$ 52,045	\$ 3,545	\$ 55,590

Canadian operations include the following:

Year ended December 31, 2009 (thousands of dollars)	Eastern Region ⁽¹⁾	Central Region ⁽¹⁾	Western Region ⁽¹⁾	Subtotal	Other ⁽²⁾	Total
Property rental revenue	\$ 101,288	\$ 205,432	\$ 128,686	\$ 435,406	\$ 6,725	\$ 442,131
Property operating costs	41,540	77,953	41,848	161,341	(4,387)	156,954
Net operating income	\$ 59,748	\$ 127,479	\$ 86,838	\$ 274,065	\$ 11,112	\$ 285,177

Year ended December 31, 2008 (thousands of dollars)	Eastern Region ⁽¹⁾	Central Region ⁽¹⁾	Western Region ⁽¹⁾	Subtotal	Other ⁽²⁾	Total
Property rental revenue	\$ 94,988	\$ 191,853	\$ 116,820	\$ 403,661	\$ 6,531	\$ 410,192
Property operating costs	40,408	73,569	37,933	151,910	(2,758)	149,152
Net operating income	\$ 54,580	\$ 118,284	\$ 78,887	\$ 251,751	\$ 9,289	\$ 261,040

The net book value of real estate assets is as follows:

December 31, 2009 (thousands of dollars)	Eastern Region ⁽¹⁾	Central Region ⁽¹⁾	Western Region ⁽¹⁾	Subtotal	Other	Total
Land and shopping centres under development	\$ 43,177	\$ 121,851	\$ 59,744	\$ 224,772	\$ —	\$ 224,772
Net book value of other real estate assets ⁽³⁾	658,599	1,561,381	1,095,606	3,315,586	—	3,315,586
Net book value of real estate assets	\$ 701,776	\$ 1,683,232	\$ 1,155,350	\$ 3,540,358	\$ —	\$ 3,540,358

December 31, 2008 (thousands of dollars)	Eastern Region ⁽¹⁾	Central Region ⁽¹⁾	Western Region ⁽¹⁾	Subtotal	Other	Total
Land and shopping centres under development	\$ 43,204	\$ 145,845	\$ 92,910	\$ 281,959	\$ —	\$ 281,959
Net book value of other real estate assets ⁽³⁾	639,844	1,446,198	982,409	3,068,451	—	3,068,451
Net book value of real estate assets	\$ 683,048	\$ 1,592,043	\$ 1,075,319	\$ 3,350,410	\$ —	\$ 3,350,410

Expenditures for additions to capital assets are as follows:

Year ended December 31, 2009 (thousands of dollars)	Eastern Region ⁽¹⁾	Central Region ⁽¹⁾	Western Region ⁽¹⁾	Subtotal	Other	Total
Deferred leasing costs	\$ 1,807	\$ 1,876	\$ 1,339	\$ 5,022	\$ —	\$ 5,022
Expenditures on shopping centres	11,366	11,186	12,757	35,309	—	35,309
Expenditures on shopping centres under development	18,967	101,986	47,157	168,110	—	168,110
Total expenditures	\$ 32,140	\$ 115,048	\$ 61,253	\$ 208,441	\$ —	\$ 208,441

Year ended December 31, 2008 (thousands of dollars)	Eastern Region ⁽¹⁾	Central Region ⁽¹⁾	Western Region ⁽¹⁾	Subtotal	Other	Total
						<i>(restated-note 2)</i>
Deferred leasing costs	\$ 1,202	\$ 1,806	\$ 1,025	\$ 4,033	\$ —	\$ 4,033
Expenditures on shopping centres	6,810	9,205	10,604	26,619	—	26,619
Expenditures on shopping centres under development	57,198	102,203	68,374	227,775	—	227,775
Total expenditures	\$ 65,210	\$ 113,214	\$ 80,003	\$ 258,427	\$ —	\$ 258,427

(1) Eastern region includes properties located in Quebec, Nova Scotia and Newfoundland.

Central region includes properties located in Ontario.

Western region includes properties located in Saskatchewan, Alberta and British Columbia.

(2) Other items are principally rental revenue recorded on a straight-line basis and market rent adjustments.

(3) Net book value of other real estate assets is comprised of the net book value of shopping centres, deferred leasing costs and intangible assets less intangible liabilities.

26. PROPORTIONATE CONSOLIDATION

The Company is a participant in 17 (2008 – 16) partnership, co-ownership and limited liability corporate ventures that own land, shopping centres, and shopping centres under development (collectively the “joint ventures”). The Company’s participation in these entities ranges from 33% to 80%.

The following amounts are included in the consolidated financial statements and represent the Company’s proportionate interest in the financial accounts of the joint ventures:

(thousands of dollars)	2009	2008
		<i>(restated-note 2)</i>
Assets	\$ 183,431	\$ 176,801
Liabilities	\$ 93,012	\$ 93,235
Revenues	\$ 27,340	\$ 26,272
Expenses	20,252	19,977
Net income	\$ 7,088	\$ 6,295
Cash flows provided by (used in):		
Operating activities	\$ 10,233	\$ 10,496
Investing activities	\$ (21,345)	\$ (15,939)
Financing activities	\$ 11,808	\$ 5,773

Cash and cash equivalents held pursuant to terms of joint-venture agreements amount to \$5.1 million (2008 – \$4.4 million) at December 31, 2009.

The Company is contingently liable for certain of the obligations of the joint ventures, and all of the net assets of the joint ventures are available for the purpose of satisfying such obligations and guarantees (note 27 (c)).

27. COMMITMENTS AND CONTINGENCIES

- (a) The Company is involved in litigation and claims which arise from time to time in the normal course of business. None of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the Company.
- (b) On October 16, 2006, First Capital Realty and First Capital (Royal Oak) Corporation (a wholly owned nominee subsidiary of First Capital Realty) were named as defendants in a lawsuit commenced by Rencor Developments Inc. and Rencor Developments (Royal Oak) Inc. (collectively, “Rencor”). First Capital Realty and Rencor are joint-venture partners in the Royal Oak Shopping Centre located in Calgary, Alberta, in which First Capital Realty owns a 60% undivided interest and Rencor owns the remaining 40% undivided interest. The Statement of Claim seeks damages for alleged breaches by First Capital Realty of certain agreements relating to the ownership and operation of the Royal Oak Shopping Centre. First Capital Realty believes the lawsuit to be frivolous and without merit and intends to vigorously defend against the allegations made in the Statement of Claim. Accordingly, as of December 31, 2009, First Capital Realty has not recorded any loss provision with respect to this claim in its financial statements.
- (c) The Company is contingently liable, jointly and severally, for approximately \$51.1 million (2008 – \$45.6 million) to various lenders in connection with loans advanced to its joint-venture partners secured by the partners’ interest in the co-ownerships.
- (d) The Company is also contingently liable for letters of credit in the amount of \$22.4 million (2008 – \$20.0 million) issued in the ordinary course of business.
- (e) The Company has obligations as lessee under long-term leases for land. Annual commitments under these ground leases are approximately \$0.8 million (2008 – \$0.8 million) with a total obligation of \$18.8 million (2008 – \$18.4 million).
- (f) In two of the Company’s shopping centres, the grocery store anchor tenant has a right to purchase their premises on terms that are potentially favourable to the tenants.

28. RELATED PARTY TRANSACTIONS

- (a) Included in corporate and other amounts receivable are amounts due from subsidiaries of the Company’s majority shareholder Gazit-Globe Ltd. (“Gazit”). Gazit reimburses the Company for certain accounting and administrative services provided by the Company. The total amount recorded as reimbursements during 2009 was \$2,315,000 (2008 – \$1,171,000) which primarily consists of appraisal and accounting costs related to preparation of financial reporting in accordance with International Financial Reporting Standards \$1,069,000 (2008 – \$1,171,000) and interest on the loan receivable as per note 8(a) \$1,246,000 (2008 – nil). Gazit is also a tenant at a property owned by the Company. Total rental payments received during 2009 amounted to \$231,450 (2008 – \$89,000). At December 31, 2009, \$1,406,500 due from Gazit was included in amounts receivable (2008 – \$212,500) and collected subsequent to year-end.

In addition, subsidiary companies of Gazit subscribe to the Company’s convertible debentures as described in Note 15.

- (b) Included in amounts receivable at December 31, 2009 are loans due from employees totalling \$250,000 (2008 – \$250,000). The interest only loans bear interest at the rate prescribed by the Canada Revenue Agency for employee loans and are fully secured against restricted share units and options to purchase common shares held by the employees. \$150,000 of the loans mature in 2010 and \$100,000 in 2013.

29. SUBSEQUENT EVENTS

(a) Senior Unsecured Debentures

On January 21, 2010, the Company completed the issuance of \$125 million aggregate principal amount of 5.85% Series H senior unsecured debentures due January 31, 2017. The Debentures bear interest at a rate of 5.85% per annum payable semi-annually commencing July 31, 2010.

(b) Interest on Convertible Debentures

On February 18, 2010, the Company announced that it will pay the interest due on March 31, 2010 to holders of both classes of its 5.50% convertible unsecured subordinated debentures, due September 30, 2017 and to holders of the 6.25% convertible unsecured subordinated debentures, due December 31, 2016, by the issuance of common shares. The number of common shares to be issued per \$1,000 principal amount of debentures will be calculated by dividing the dollar amount of interest payable by an amount equal to 97% of the volume-weighted average trading price of the common shares of First Capital Realty on the Toronto Stock Exchange, calculated for the 20 consecutive trading days ending on March 24, 2010. The interest payment due is approximately \$8.7 million.

It is the current intention of the Company to satisfy its obligations to pay principal and interest on its convertible debentures by the issuance of common shares. Since issuance, all interest payments have been made using shares.

30. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to reflect the presentation adopted in the current year.

Shareholder Information

Head Office

King Liberty Village
85 Hanna Avenue, Suite 400
Toronto, Ontario M6K 3S3
Tel: 416 504 4114
Fax: 416 941 1655

Montreal Office

2620 de Salaberry, Suite 201
Montreal, Quebec H3M 1L3
Tel: 514 332 0031
Fax: 514 332 5135

Morningside Crossing

FCR Property Management Services
4525 Kingston Road, Suite 2201
Toronto, Ontario M1E 2P1
Tel: 416 724 5550
Fax: 416 724 2666

Calgary Office

Trans Canada Centre
Unit 158, 1440-52nd Street NE
Calgary, Alberta T2A 4T8
Tel: 403 257 6888
Fax: 403 257 6899

Edmonton Office

Northgate Centre, Unit 2004
9499-137 Avenue
Edmonton, Alberta T5E 5R8
Tel: 780 475 3695
Fax: 780 478 6716

Vancouver Office

Terra Nova Village
3671 Westminster Hwy, Suite 240
Richmond, British Columbia V7C 5V2
Tel: 604 278 0056
Fax: 604 278 3364

Annual Shareholders' Meeting

May 10, 2010
One King West Hotel and Residence
1 King Street West
The Austin Gallery Room, 12th Floor
at 11:00 a.m.

Toronto Stock Exchange Listings

Common shares:
FCR
5.50% Convertible Cdn Debentures:
FCR.DB.A
5.50% Convertible U.S. Debentures:
FCR.DB.B
6.25% Convertible Debentures:
FCR.DB.C
5.70% Convertible Debentures:
FCR.DB.D
Warrants: FCR.WT.A

Transfer Agent

Computershare Trust Company of Canada
100 University Avenue, 11th Floor
Toronto, Ontario M5J 2Y1
Toll-free: 1 800 564 6253

Legal Counsel

Torys LLP
Toronto, Ontario
Davies Ward Phillips & Vineberg LLP
Montreal, Quebec

Auditors

Deloitte & Touche LLP
Toronto, Ontario

Officers

Dori J. Segal
President and CEO

Karen H. Weaver
*Executive Vice President and
Chief Financial Officer*

Brian Kozak
*Senior Vice President,
Western Canada*

Directors

Chaim Katzman
*Chairman, First Capital Realty Inc.
North Miami Beach, Florida*

Dori J. Segal
*President and Chief Executive Officer,
First Capital Realty Inc.
Toronto, Ontario*

Jon Hagan, C.A.
*Consultant, JN Hagan Consulting
Toronto, Ontario*

Nathan Hetz, C.P.A.
*Chief Executive Officer and Director,
Alony Hetz Properties and Investments Ltd.
Ramat Gan, Israel*

Susan J. McArthur
*Managing Director,
Jacob & Company Securities
Toronto, Ontario*

Bernard McDonell
*Private Investor
Montreal, Quebec*

Steven K. Ranson, C.A.
*President and Chief Executive Officer,
Home Equity Income Trust
Toronto, Ontario*

Moshe Ronen
*Barrister and Solicitor
Thornhill, Ontario*

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85 Hanna Avenue, Suite 400, Toronto, Ontario M6K 3S3
T 416.504.4114 T 416.941.1655
www.firstcapitalrealty.ca



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