Convertible debentures

CICA has issued amendments to Section 3860 of the Handbook that will require the Company's unsecured convertible debentures, presently classified as equity, to be presented as liabilities and the distributions to debenture holders presently classified as a charge to equity to be presented as interest expense. The amendments are effective for fiscal years beginning on or after November 2004 and are to be applied retroactively. The Company will adopt this recommendation effective January 1, 2005.

RISK MANAGEMENT

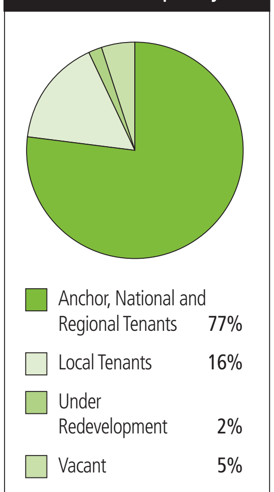
First Capital Realty, as an owner of income property and development land, is exposed to numerous business risks in the normal course of its business that can impact both short and long-term performance. Income and development property are affected by general economic conditions and local market conditions such as oversupply of similar property 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 actions to minimize their impact are outlined below.

Operating Risk

The Company's most significant operating risk is the potential for reductions in revenue resulting from an inability to maintain acceptable levels of occupancy and stable or increasing rental rates. An anchor tenant or other tenant may experience a downturn in its business that may weaken its financial condition. As a result, these tenants may default in performing their obligations under their leases.

First Capital Realty focuses on securing well-capitalized retail tenants such as food supermarkets, drug stores and discount department stores that provide consumers with basic necessities and amenities as distinct from those that cater to more discretionary fashion demands. These tenants, in addition to creating a stable source of long-term rental income, generate customer traffic for the benefit of smaller retail and service tenants. The nature and relationship of the anchors to small shop tenants and the balance between national and local retailers is a key strategy in establishing stable, sustainable revenue from each of First Capital Realty's properties. Approximately 77% of First Capital Realty's total gross leasable area is occupied by anchor, national and regional retail tenants. Management believes that this makes the Company's revenues less susceptible to general economic swings as, even during economic downturns, consumers continue to purchase necessities such as groceries, prescription drugs and basic clothing.

Portfolio occupancy



The financial success of First Capital Realty's tenants, operating in well-located, properly maintained and successfully merchandised and positioned properties, will minimize the impact of this risk on the Company. First Capital Realty's lease arrangements with some of its tenants provide for income protection and growth through rent escalations and through a participation in the tenants' sales success in the form of percentage rents which are payable in addition to minimum rents.

First Capital Realty typically enters into net leases whereby its tenants are responsible for payment of taxes and costs of operating and managing the properties. These costs, in addition to mortgage payments and capital expenditures must be paid regardless of whether the property is leased.