

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Gazit America Inc. ("Gazit America" or the "Company"), formerly First Capital America Holding Corp. ("FCAH") 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, will be available on the website of Canadian Securities Administrator's System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on the Company's web site at www.gazitamerica.com. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statement and MD&A are presented in Canadian dollars unless otherwise stated. The information contained in this MD&A is based on information available to Management, and is dated March 18, 2010.

FORWARD LOOKING STATEMENT ADVISORY

Certain statements contained in the "Business Overview", "Investment Overview" and "Capital Structure and Liquidity" sections of this MD&A constitute forward-looking statements, and other statements concerning Gazit America'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 relative illiquidity of real property, unexpected costs or liabilities related to acquisitions, environmental matters, legal matters, reliance on key personnel, financial difficulties and defaults, changes in interest rates and credit spreads, changes in the U.S.–Canadian foreign currency exchange rate, changes in operating costs, the Company's ability to obtain insurance coverage at a reasonable cost and the availability of financing.

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. Gazit America 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 securities laws. These forward-looking statements are made as of March 18, 2010.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

(in thousands of dollars, except share and per share amounts, average exchange on dividends and percentage of ownership)

	As at and for the year ended December 31		
	2009	2008	2007
Equity income from Equity One, Inc.	\$ 11,252	\$ 8,716	\$ 14,375
Total revenues	\$ 1,056	\$ 870	\$ 1,481
Interest expense	\$ 7,503	\$ 7,950	\$ 10,598
Net Income	\$ 4,991	\$ 578	\$ 2,836
Earnings per share ⁽¹⁾	\$ 0.47	\$ 0.06	\$ 0.31
Common shares outstanding ⁽¹⁾	12,847,877	9,212,413	9,212,413
Total assets	\$ 215,065	\$ 237,485	\$ 199,972
Total long-term financial liabilities	\$ 145,979	\$ 153,772	\$ 127,976
Dividends from Equity One (Cdn\$)	\$ 18,098	\$ 18,193	\$ 17,617
Dividends from Equity One (US\$)	\$ 15,770	\$ 16,809	\$ 16,756
Number of Equity One shares owned	14,080,069	14,080,069	13,983,569
Percentage of ownership	16.3%	18.5%	19.1%

⁽¹⁾ Share amounts have been restated to reflect the impact of the spin-off

BUSINESS OVERVIEW

In June 2009, FCAH amalgamated with 1799371 Ontario Limited and 1799372 Ontario Limited, the companies that directly and indirectly held FCR's ownership interest in FCAH, to form Gazit America (the "Amalgamation").

On July 17, 2009, First Capital Realty Inc. ("FCR") declared a special dividend to its shareholders to distribute the common shares of Gazit America on a pro rata basis to its shareholders (the "spin-off" transaction). The record date for this special dividend was July 28, 2009 and the payment date was August 14, 2009. The common shares of the Company were divided so that holders of FCR common shares received one share of the Company for every 10 FCR common shares that they held as of the record date. A total of 9,212,413 shares of the Company were distributed as dividend-in-kind. No shares were issued to shareholders who were, or were deemed to be, non-residents of Canada. Rather, such shares were delivered to a trustee for sale in the open market following the dividend-in-kind and the proceeds were delivered to non-resident shareholders, net of any withholding taxes and expenses.

Prior to the spin-off transaction, the Company acquired all of the issued and outstanding common shares of ProMed Properties (CA) Inc. (“ProMed”) from Gazit Canada Inc. (“Gazit Canada”), FCR’s controlling shareholder, for \$16.6 million plus closing costs. The purchase price was settled through the issue of 3,635,464 common shares and cash of \$240,000.

Following completion of the dividend-in-kind and the acquisition of ProMed, the Company had 12,847,877 common shares issued and outstanding. Upon completion of the spin-off, the Company became a separate publicly listed company in Canada. The Company’s common shares trade on the Toronto Stock Exchange under the ticker symbol GAA.

With the acquisition of all of the issued and outstanding common shares of ProMed, the Company currently owns and operates the assets of ProMed. At December 31, 2009, ProMed’s assets consisted principally of two properties, with four medical office buildings located in Cambridge, Ontario and one medical office building located in London, Ontario. Subsequent to year end, the Company acquired an additional medical office building located in Ottawa, Ontario.

The Company also has an investment in Equity One Inc. (“Equity One”), one of the largest shopping centre Real Estate Investment Trusts (“REITs”) in the southern United States. Equity One trades on the New York Stock Exchange under the ticker symbol EQY.

Growth Strategy

The Company’s primary investment objectives are to focus on entrepreneurial real estate opportunities, principally within North and South America, including:

- the acquisition and development of income-producing assets;
- investments in public and private real estate entities;
- investments in commercial and residential mortgage-backed securities; and
- investments in joint ventures and other structured acquisitions with its affiliates and/or third parties.

Foreign currency translation

Because the Company carries on business in the United States, assets and liabilities denominated in United States dollars are translated into Canadian dollars at period-end exchange rates. At December 31, 2009, the Canadian dollar to United States dollar exchange rate (\$Cdn/\$US) was \$1.05 (December 31, 2008 – \$1.22). Based on 2009 operating results, every one cent change in the Canadian dollar to United States dollar exchange rate, would impact net income by approximately \$33,000 or \$0.003 per share, while net asset values would change by approximately \$352,000 or \$0.027 per share and cash provided by operating activities by approximately \$88,000 or \$0.007 per share.

INVESTMENT OVERVIEW

The Company's current interests include 164,000 square feet of Canadian medical office properties and an approximate 15.5% ownership interest in Equity One, one of the largest shopping centre REITs in the southern United States.

Medical Office Properties

Immediately prior to the spin-off, the Company acquired all of the issued and outstanding common shares of ProMed from Gazit Canada for \$16.6 million plus \$137,000 in closing costs. The purchase price was settled through the issue of 3.6 million common shares and cash of \$240,000.

At the time of acquisition, ProMed owned two medical office properties consisting of four contiguous buildings in Cambridge, Ontario and one medical office building located in London, Ontario. The properties total approximately 115,000 square feet of leasable area and were approximately 80% occupied at acquisition. In March 2010, the Company acquired the Nepean Medical Centre, a 49,000 square foot medical office property located in Ottawa, Ontario. This property was 97.7% occupied at acquisition.

All of these properties are managed by PAR-Med Property Services Ltd. ("PAR-Med"), a privately held third-party management company that has significant expertise in the Canadian medical office segment. PAR-Med has been providing management services to the medical office building community since 1988.

Management is investing in medical office properties as it believes that this class of real estate investment is less sensitive to economic cycles than commercial real estate in general and that there will be growing demand for healthcare services in Canada. The Company intends to continue to grow its medical office property portfolio through acquisition of existing properties in North America and/or the redevelopment of other commercial real estate into medical office use.

Investment in Equity One, Inc.

Gazit America owns approximately 14.1 million shares of Equity One as of December 31, 2009 (December 31, 2008 – approximately 14.1 million shares), representing approximately 16.3% (December 31, 2008 – 18.5%) of the total outstanding common shares of Equity One. Subsequent to year end, the Company acquired an additional 100,000 shares of Equity One for US\$1.84 million.

Equity One is a United States REIT traded on the New York Stock Exchange under the ticker symbol EQY. Equity One is a fully integrated real estate investment trust specializing in the acquisition, asset management, development and redevelopment of quality retail properties located in the United States.

The Company's investment in Equity One originated from an exchange of FCR's U.S. shopping centre business for shares in Equity One in September 2001, which at the time had a book value of US\$120 million. Since that time, Equity One has grown significantly, and the Company's investment has increased with additional investments in shares. Equity One has paid dividends for 47 consecutive quarters and has historically provided the Company with a stable source of cash flow.

Information in this MD&A concerning Equity One is based on publicly available information and documents filed with the U.S. Securities and Exchange Commission.

As of December 31, 2009, Equity One owned or had interests in 182 properties in the U.S. totalling approximately 19.0 million square feet of gross leasable area consisting of 168 shopping centres, 3 projects in development/redevelopment, 6 non-retail properties and 5 parcels of land. In the first quarter of 2009, Equity One acquired a controlling interest in DIM N.V., which has 21 retail properties totalling over 2.6 million square feet of space with a book value of US\$314 million as at December 31, 2009.

The following table summarizes the assets, liabilities and results of operations of the Company's significant equity investee, Equity One. The amounts summarized in the table below are provided to comply with applicable securities laws and have been derived directly from Equity One's financial statements as at and for the years ended December 31, 2009 and 2008. Amounts summarized do not incorporate adjustments that the Company makes in applying the equity basis of accounting for such investments. As a result, readers are cautioned that amounts included in the table below cannot be used to directly re-compute the Company's equity income and net investment respecting Equity One.

Readers are cautioned that the Company does not have any direct or indirect interest in or right to Equity One's assets or revenue nor does the Company have any direct or indirect obligation in respect of or liability for Equity One's expenses or obligations. The Company is a security holder of Equity One, just like any other security holder of Equity One, and, accordingly, the value of the Company's investment in Equity One is based on the value of Equity One securities held.

<i>(US\$ millions, except Company's interest)</i>	As at and for the years ended	
	December 31, 2009	December 31, 2008
Properties, net	\$ 2,262	\$ 1,779
Other assets	190	257
Notes payable	1,217	1,070
Other liabilities	147	56
Equity	1,088	910
Revenue	271	237
Expenses	(179)	(142)
Other expenses, net	(8)	(60)
Net income	84	35
The Company's ownership percentage	16.3%	18.5%

The Company's investment in Equity One decreased in 2009 to \$192.8 million compared to \$227.2 million at December 31, 2008. The decrease is primarily from the change in foreign currency exchange rates during the year. On April 9, 2009 Equity One issued 6.5 million shares which resulted in the Company's interest in Equity One declining to 16.4% and a net dilution loss of \$676,000. In the fourth quarter of 2009, the Company's interest in Equity One declined to 16.3% due mainly to the vesting of Equity One restricted share units. This resulted in a net dilution loss of \$392,000.

In March 2010, Equity One issued a total of 5.43 million additional shares of which the Company acquired 100,000. This resulted in the Company's equity percentage being reduced from 16.3% to approximately 15.5%.

RESULTS OF OPERATIONS

Rental Revenues and Property Operating Expenses

	For the years ended December 31	
<i>(thousands of dollars)</i>	2009	2008
Rental revenues	\$ 1,042	\$ -
Property operating expenses	595	-
Net operating income	\$ 447	\$ -

The above results represent operations from the August 14, 2009 acquisition date of ProMed to the end of the year. Rental revenues are comprised of base rents charged to tenants, recoveries of property operating expenses and other income. Base rents are contractual rents assessed before any additional rents as required in a lease. Operating expense recoveries are amounts due from tenants, on top of the base rent, for common area maintenance, real estate taxes and other recoverable expenses. Other revenues consist of parking revenues, above/below market rents, straight-line rents, lease termination and other ancillary income. Base rents and operating expense recoveries each comprise about 45% of total rental revenues and other rents account for the remainder of revenues.

Property operating expenses include all expenses incurred in the operation and maintenance of the properties. Most of these expenses are recoverable from tenants, however, expenses associated with vacant space and certain other expenses (e.g., marketing expenses) are not recoverable.

Net operating income (“NOI”) is defined as rental revenues less operating expenses. Management considers NOI to be a meaningful indicator of operations and uses it as their primary measurement of property operating performance. Readers are cautioned that NOI is not a defined measure of operating performance under GAAP and that the Company’s calculation of NOI may differ from that of other entities.

At December 31, 2009, occupancy was 84.6% and the average base rental rate was \$12.01 per square foot. Occupancy and average base rental rates are both slightly improved since the August 2009 acquisition. Tenant leases typically have a term of three to five years and some of the existing tenants have been in their rented space for ten years or more. At December 31, 2009, approximately 38% of the leased space is expiring in 2010, 20% is expiring in 2011, 25% is expiring in 2012 and the remainder is expiring in 2013 and beyond. The average base rental rate and expiry profile do not include the recently acquired Nepean Medical Centre. At March 1, 2010, the Nepean Medical Centre was 97.7% occupied with a weighted average lease term of 6.7 years with minimal expiries before 2017. Medical office properties tend to have higher tenant retention rates when compared with other classes of real estate and management believes that average base rental rates are below current market rates.

Equity Income from Equity One

The Company’s share of Equity One’s net earnings, adjusted to Canadian GAAP and net of a provision for future tax on the undistributed earnings of Equity One, is recorded as equity income. Equity One

reported gains of US\$29.7 million for the year ended December 31, 2009, on the early extinguishment of a portion of its unsecured debt at a discount and the disposal of income-producing properties and investment securities. The Company's share of the gain are included in equity income and amounted to approximately US\$4.8 million.

On November 4, 2009, Equity One reported its third quarter 2009 results and, among other things, a new dividend policy. Starting for the quarter ended December 31, 2009 (payable on that date to stockholders of record on December 15, 2009), the dividend is US\$0.22 per share representing an annualized rate of US\$0.88 per share. The Company received dividends from Equity One of US\$15.7 million or US\$1.12 per share for the year ended December 31, 2009. This compares to dividends received in 2008 of US\$16.8 million or US\$1.20 per share. The Canadian dollar equivalent amounts were \$18.1 million and \$18.2 million, in 2009 and 2008, respectively. Under the equity method of accounting, dividends received from Equity One are accounted for as a reduction in the investment in Equity One.

Interest income

Interest income decreased over 2008 as a result of repayment in full in the first quarter of 2009 of intercompany loans from the Company to its then parent company.

Interest expense

Interest expense was \$7.5 million and \$8.0 million for the years ended 2009 and 2008, respectively. This change relates primarily to differences in the Company's capital structure before and after the spin-off transaction. All term loans and credit facilities bear floating rates of interest; however, US\$50.0 million (approximately 46.3%) of borrowings have been hedged at a weighted average fixed London Inter-Bank Offering Rate ("LIBOR") of 4.60%. The floating rate debt bears interest at rates of LIBOR plus 140 to 280 basis points (see Capital Structure and Liquidity section). At the closing of the spin-off transaction, US\$36.0 million inter-company indebtedness owing to FCR was formalized into an unsecured subordinated interest-only term loan bearing interest at the rate of 8.5%. Previously, intercompany indebtedness bore interest at LIBOR plus a spread.

General and administrative expenses

General and administrative expenses in 2009 of \$1.2 million are higher compared to \$0.9 million in 2008. This increase is due primarily to the higher level of administrative expenses incurred after the spin-off transaction when the Company became a stand-alone public company. General and administrative expenses are expected to increase going forward. The size of this increase will ultimately depend on the magnitude and timing of the Company's growth. These costs primarily consist of salaries and benefits, management fees paid to FCR prior to the dividend-in-kind, professional fees, and other miscellaneous items.

Other income

Other income for the year ended December 31, 2009 consisted of unrealized gains on interest rate swaps.

Income taxes

In 2009, the Company incurred \$1.0 million in current income tax expenses as compared to \$1.7 million in 2008. Current taxes relate exclusively to taxes payable by the Company's U.S. subsidiaries and were lower in 2009 due to a significant decrease in the taxable portion of Equity One dividends when compared to 2008.

Future income taxes result from deductible or taxable temporary differences of the Company and its various subsidiaries.

CAPITAL STRUCTURE AND LIQUIDITY

Term loans, credit facilities and mortgages

The Company uses U.S. dollar-denominated debt to finance the Company's investment in Equity One to reduce the Company's exposure to fluctuations in foreign currency exchange rates and to enhance rates of return on invested capital. The debt service requirements of the term loans and revolving credit facilities are funded by the cash flow generated by the dividends from Equity One.

The Company uses interest rate swaps to hedge a portion of the interest expense on its term loans and credit facilities. Management believes that using interest rate swaps provides cash flow stability and reduces overall risk, while generating an acceptable return on investment, taking into account the long-term business objectives of the Company.

<i>(thousands of dollars)</i>	Due Date	Average Interest Rate ¹	December 31, 2009	Average Interest Rate ¹	December 31, 2008
Fixed rate mortgage	Jul. 2016	5.98%	\$ 970	\$	-
Secured term loans					
Floating rate hedged with interest rate swaps	Jan. 2013	7.40%	52,550	5.67%	30,450
Floating rate	Jan. 2013	3.08%	38,151	5.61%	81,972
Floating rate	Apr. 2011	1.65%	8,855	5.55%	11,175
Secured revolving US\$25 million credit facility					
Floating rate	Jan. 2013	2.81%	7,042	3.72%	30,450
			\$ 107,568	\$	154,047
Unamortized deferred financing costs			(519)		(275)
			\$ 107,049	\$	153,772

¹ Including impact of interest rate swap.

At December 31, 2009, the Company had total borrowings on its term loans and credit facilities of \$106.6 million (US\$101.4 million), compared to \$154.0 million (US\$126.5 million) at December 31, 2008. The decrease results primarily from \$30.5 million of principal payments (virtually all prior to the spin-off transaction) and exchange rate fluctuations.

Floating rate term loans totalling \$90.7 million (US\$86.3 million) bear interest at LIBOR plus 280 basis points and the remaining \$8.8 million (US\$8.4 million) of term loans bear interest at LIBOR plus 140 basis points.

The Company also has a US\$25.0 million (December 31, 2008 – US\$25.0 million) revolving term credit facility with its primary U.S. lender. As of the second quarter of 2009, draws under the facility bear interest at LIBOR plus 250 basis points versus 150 basis points previously. The revolving term credit facility has \$7.0 million (US\$6.7 million) outstanding as of December 31, 2009.

In the second quarter of 2009, certain amendments were made to the loan agreements with the primary U.S. lender including an extension of the floating rate financing to July 2010 and an increase in the interest rate from LIBOR plus 145 basis points to LIBOR plus 250 basis points until July 3, 2009 and LIBOR plus 280 basis points thereafter.

In December 2009, the Company's U.S. subsidiaries and the primary U.S. lender agreed to extend the maturity date of its existing term loans and the US\$25.0 million revolving term credit facilities to January 1, 2013. Spreads over LIBOR remain unchanged at 280 basis points on the term loans and 250 basis points on the revolving term credit facility. All other significant terms also remain unchanged. In addition, a U.S. subsidiary of the Company exercised its option to extend the maturity date of its US\$8.4 million term loan bearing interest at LIBOR plus 140 basis points to April 3, 2011.

A portion of the floating rate term loan is hedged with interest swaps comprised of LIBOR swap agreements on a notional US\$50.0 million balance (December 31, 2008 – US\$25.0 million) at a fixed rate of 7.4% (December 31, 2008 – 5.67%) including applicable spreads. The hedges mature between March 2013 and October 2018. Included in the notional US\$50.0 million of interest rate swaps are US\$25.0 million of swaps that the Company assumed from FCR prior to the spin-off transaction. The floating rate financing hedges assumed from FCR have been in place since 2007, expire between April 2017 and October 2018 and were originally entered into to fix the interest rate on floating rate debt secured against the Equity One shares.

The Company has a \$37.8 million (US\$36.0 million) unsecured subordinated note outstanding to FCR. This note is interest only at a fixed rate of 8.5% and is pre-payable without penalty or bonus after August 14, 2012. The loan matures on June 19, 2014 subject to the Company's option to extend the maturity date for a further five-year period.

The Company is subject to financial covenants in agreements governing its term loans, revolving term credit facilities and mortgage debt. The Company is in compliance with all financial covenants.

Contractual Obligations

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

<i>(thousands of dollars)</i>	Payments due by period				
	Total	2010	2011-2012	2013-2014	Thereafter
Mortgage					
Scheduled amortization	\$ 338	\$ 43	\$ 95	\$ 106	\$ 94
Payments on maturity	632	-	-	-	632
Total mortgage obligations	970	43	95	106	726
U.S. term loans	99,556	7,094	20,678	71,784	-
U.S. revolving credit facilities	7,042	-	-	7,042	-
Advances from affiliated entities ⁽¹⁾	37,836	-	-	37,836	-
Total contractual obligations	\$ 145,404	\$ 7,137	\$ 20,773	\$ 116,768	\$ 726

⁽¹⁾ The Company has the option to extend for a five-year term

Shareholder's equity

At December 31, 2009, shareholder's equity amounted to \$53.9 million compared to \$65.9 million as at December 31, 2008. The reduction in shareholder's equity relates primarily to dividends paid prior to the spin-off. Immediately prior to the spin-off, the number of common shares outstanding was adjusted to 9,212,413 (one common share for every 10 shares of FCR outstanding at the dividend-in-kind record date). At the acquisition of ProMed, 3,635,464 shares were issued that brought the total number of issued common shares to 12,847,877. At December 31, 2009 the number of common shares outstanding was 12,847,877.

Shareholder's equity at December 31, 2009 included accumulated other comprehensive losses of \$20.1 million (December 31, 2008 - \$14.8 million), which consisted primarily of unrealized currency translation adjustments, gains on hedges of interest rates and the Company's share of other comprehensive income of Equity One. The accumulated unrealized currency translation adjustment represents the difference between the U.S. dollar exchange rate in effect at the date of the acquisition of the Company's U.S. net assets, and the U.S. dollar exchange rate as at December 31, 2009.

Liquidity

Cash flows generated from operating our rental properties and from our investment in Equity One represent the primary sources of liquidity to service debt and to fund building improvements, leasing costs and general and administrative expenses. Cash flow from operations is dependent primarily upon dividends declared by Equity One and to a lesser extent occupancy levels and rental rates achieved at our rental properties as well as collectability of rents, efficiencies in operations and operating costs. The Company does not intend to repay maturing debt from cash flow but with proceeds from refinancing such debt and/or capital market activities.

In addition, as at December 31, 2009, the Company had approved credit facilities totalling US\$25.0 million (Canadian equivalent of \$26.3 million) and undrawn amount of US\$18.3 million (Canadian equivalent of \$19.2 million) available to satisfy any liquidity requirements.

Contingencies

The Company is not involved in any litigation or claims that may materially effect the financial position of the Company.

QUARTERLY FINANCIAL INFORMATION

(thousands of dollars, except per share amounts; number of shares and percentage interest)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Equity One income (loss)	1,024	2,829	3,369	4,030	1,405	(1,506)	5,007	3,810
Total revenues	708	342	-	6	-	316	295	259
Interest expense	2,311	2,139	1,449	1,604	2,124	1,836	1,704	2,286
Net income (loss)	1,547	1,344	1,020	1,080	1,240	(4,373)	2,751	960
Basic earnings (loss) per share	0.12	0.12	0.11	0.12	0.13	(0.47)	0.30	0.09
Common shares outstanding ⁽¹⁾	12,847,877	12,847,877	9,212,413	9,212,413	9,212,413	9,212,413	9,212,413	9,212,413
Investment in Equity One, Inc.	192,806	198,918	219,060	237,780	227,259	201,047	195,456	196,620
No. of shares owned of Equity One	14,080,069	14,080,069	14,080,069	14,080,069	14,080,069	13,983,569	13,983,569	13,983,569
Basic ownership %	16.3%	16.4%	16.4%	18.4%	18.5%	18.4%	19.0%	19.1%

¹ Share amounts have been restated to reflect the impact of the spin-off

FOURTH QUARTER 2009 OPERATIONS AND RESULTS

For the quarter ending December 31, 2009 (payable on that date to stockholders of record on December 15, 2009), the dividend received from Equity One was US\$0.22 per share or US\$3.1 million in accordance with the new dividend policy announced by Equity One in November. This is a reduction of about US\$1.1 million from the previous quarterly dividend levels.

There is minimal seasonality in the Company's rental revenues and resulting net income. The majority of the tenants at the rental properties are on long-term leases which include both base rents and cost recoveries. Most changes in property operating expenses are therefore passed on to the tenants. The rental properties were acquired halfway through the third quarter of 2009. This explains the growth in rental revenues in 2009.

The equity income from Equity One is typically not significantly impacted by seasonal factors. Rather, it is affected by changes in its property portfolio and also by its various other investments and commitments. Equity income is lower in the fourth quarter of 2009 due to an adjustment to the taxable portion of dividends received in 2009. In early 2010, Equity One reported the taxable portion of its 2009 dividends. This figure was lower than previous years and the initial estimates used by management. This resulted in lower equity income in the fourth quarter of 2009.

In the fourth quarter of 2009, the Company recorded an adjustment to income taxes payable related to Equity One's disclosure of the taxable portion of 2009 dividends. This contributed to the income tax recovery recognized during the fourth quarter.

EVENTS SUBSEQUENT TO DECEMBER 31, 2009

In February 2010, the Company announced the appointment of its full-time Chief Executive Officer, Gail Mifsud.

Also in January and February of 2010, a total of 642,500 options were granted to directors, officers and certain key employees at an exercise price of \$6.75 per share. These options are still contingent on Toronto Stock Exchange and shareholder approval.

In March 2010, the Company acquired the shares of Nepean Medical Centre Inc., a company that owns a 49,000 square foot, medical office building in Ottawa, Ontario. The shares were acquired for approximately \$3.1 million in cash. The Company assumed a \$7.8 million first mortgage at a fixed interest rate of 5.76% that matures in September 2014.

Also in March 2010, Equity One completed a common stock offering that resulted in the issue of approximately 5.4 million shares of Equity One. The Company acquired 100,000 of these shares at the offering price of US\$18.40 per share for a total consideration of US\$1.84 million. This brings the Company's ownership interest in Equity One to 14.18 million shares, representing approximately 15.5% of the total outstanding shares.

RELATED PARTY TRANSACTIONS

Gazit-Globe Ltd. ("Gazit-Globe"), a multinational real estate investment group listed on the Tel Aviv Stock Exchange (TASE: GLOB) indirectly owns 65.5% of the common shares of the Company through its wholly-owned Canadian subsidiaries (collectively "Gazit Canada"). In addition, Gazit-Globe indirectly owns controlling interests in FCR and Equity One (including the shares of Equity One owned by the Company). Gazit Group USA Inc. ("Gazit USA") is a wholly-owned subsidiary of Gazit-Globe. ProMed Properties ("ProMed US") is a wholly-owned subsidiary of Gazit USA.

Acquisition Agreement

Immediately prior to the spin-off transaction, the Company acquired all of the issued and outstanding common shares of ProMed from Gazit Canada, for a net price of \$16.6 million. At that time, the assets of ProMed consisted principally of two properties, consisting of four medical office buildings located in Cambridge, Ontario and one medical office building located in London, Ontario. The net purchase price was settled through the issue of 3.6 million common shares and cash of \$240,000.

Relationship Agreement

The Company and ProMed U.S. entered into an agreement on August 14, 2009 that governs aspects of the relationship between them. Pursuant to this agreement, ProMed U.S. agreed in favour of the Company that it will not make any future investments in medical office buildings in Canada without the prior approval of the Company in its sole, unfettered discretion and the Company agreed in favour of ProMed U.S. that the Company will not make future investments in medical office buildings in the United States without the prior approval of ProMed U.S., in its sole, unfettered discretion. For purposes of this agreement, "investment" includes acquisition, development, re-development, financing, operating and

otherwise investing in one or more medical office buildings, directly or indirectly. Furthermore, a potential direct or indirect investment in a privately owned portfolio of real estate assets where more than 10% of the value of the total portfolio proposed to be invested in is comprised of medical office buildings will be deemed to be an investment in medical office buildings. The Relationship Agreement has a term of the earlier of (a) three years, and (b) the date on which both of the following are true: (i) the Company or ProMed U.S. ceases to be controlled by the Gazit Group; and (ii) no member of management of the Company is a member of management of ProMed U.S. or on the board of directors of ProMed U.S.

Gazit USA Service Agreement

In conjunction with the spin-off transaction, the Company and Gazit USA entered into an agreement whereby, at the request of the Company, Gazit USA would provide certain services to the Company in connection with the Company's equity holdings in Equity One and its U.S. term loans and revolving credit facilities. In consideration for providing such services, Gazit USA will be entitled to receive from the Company a market-based hourly rate. No amounts were paid to Gazit USA in 2009 under this agreement. The agreement may be terminated by either party at any time upon ninety days written notice without the payment of any termination fee.

Gazit Canada Services Agreement

In conjunction with the spin-off transaction, the Company entered into an agreement with Gazit Canada pursuant to which the Company agreed to provide certain services to Gazit Canada as may be requested by Gazit Canada from time to time. The services to be provided by the Company include, among other things, certain accounting services, services relating to the purchase, acquisition, lease, administration and sale of real property assets or interest therein and the administration of Gazit Canada's investments. The agreement may be terminated by either party at any time upon ninety day's written notice without the payment of any termination fees. In consideration for providing such services, the Company will be entitled to receive from the Company a market-based hourly rate. In 2009, the Company received approximately \$18,000 for services performed under this agreement.

FCR Services Agreement

In conjunction with the spin-off transaction, the Company entered into an agreement with FCR pursuant to which FCR agreed to provide certain transitional services to the Company as may be requested by the Company from time to time. The services to be provided to the Company include, among other things, certain accounting services and cash and treasury management. This agreement expires upon the earlier of (i) March 31, 2010 and (ii) the date on which the Company publicly files its annual information form relating to the year ending December 31, 2009. In consideration for providing such services, FCR will be entitled to receive from the Company a market-based hourly rate. In 2009, the Company paid approximately \$63,000 for services performed under this agreement.

FCR Unsecured Subordinated Term Loan

At the closing of the spin-off transaction, US\$36.0 million of intercompany debt owing to FCR was formalized into an unsecured subordinated term loan. This unsecured subordinated term loan bears interest at a fixed rate of 8.5% per annum and is payable interest only until it matures on June 19, 2014,

subject to the Company's option to extend the maturity date for a further five year period. After August 14, 2012, the loan is pre-payable in whole or in part without penalty or bonus.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in Note 2 to the Consolidated Financial Statements.

Management believes the policies which are most subject to estimation and Management's judgment 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; and
- valuation of financial instruments both for disclosure and measurement purposes.

Rental Property Acquisitions

Under GAAP, 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 rents, lease origination costs, tenant relationships and mortgages, if any.

Management uses estimates and judgments 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 rents 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 GAAP, Management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. The Company's long-lived assets are its investments in rental properties. The fair value of investments in rental 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. 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, 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 rental properties, Management makes use of the property appraisals completed internally and by external appraisers.

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.

Fair Value of Financial Instruments

The Company is required to determine the fair value of its mortgage debt, unsecured debentures and term loans. 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 and unsecured debentures. Estimates of market rates and the credit spread applicable to a specific property could vary and result in a different disclosed fair value. Management uses property appraisals made internally and by external appraisers.

Income Taxes

The Company exercises judgment 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

There were no changes to significant accounting policies during the twelve months ending December 31, 2009.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") has confirmed that the use of IFRS, as issued by the International Accounting Standards Board ("IASB"), will replace current Canadian accounting standards effective January 1, 2011 (the "Changeover date"). The Company will not be opting for early adoption of IFRS.

The Company is in the process of developing its changeover plan from existing GAAP to IFRS. The Company has established its project team led by its finance group and will include other key employees to plan, design and implement the changeover process.

The Company is implementing its changeover plan in three phases:

- i. *Scope/Diagnostic Phase* – a preliminary high-level diagnostic to identify key areas in which there may be significant differences between IFRS and existing GAAP for the Company's financial statements. This phase will also include preliminary considerations for processes, controls, systems and resources to facilitate the changeover process. The Company expects to complete this phase by mid 2010.
- ii. *Assessment and Design Phase*- establishes key milestone dates, establishing internal training and external resource requirements of the Company, procedures and processes to accommodate the changeover, a review of the Company's material agreements, a review of internal control requirements and assignment of responsibility to key departmental personnel. A detailed assessment of the business impact of IFRS shall be conducted and is expected to result in

recommendations for implementation of the steps and changes to align the Company's policies, processes, procedures and systems to IFRS. The Company expects to complete this phase during the third quarter of 2010.

- iii. *Implementation and Monitoring Phase* – involves implementation of the recommendations from the assessment and design phase. This will monitor progress of the implementation of changes to business processes and information systems, finalization of recommended accounting policy changes and completion of training programs for staff. By December 2010, the Company expects to implement changes and run in parallel with current practices to test and prepare for full adoption of IFRS at the conversion date of January 1, 2011.

At this point in time, the Company is not able to reasonably quantify the effects of IFRS to its financial statements.

CONTROLS AND PROCEDURES

Disclosure Control Procedures

The Company maintains appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosures in Issuers' Annual and Interim Filings) as at December 31, 2009 and have concluded that such disclosure controls and procedures are operating effectively.

Internal Control over Financial Reporting

Management is responsible for establishing adequate internal control 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 GAAP. Management has completed the assessment of the design and effectiveness of the Company's internal control over financial reporting (as defined in National Instrument 52-109) as at December 31, 2009 and based on that assessment, determined that the internal control over financial reporting were appropriately designed and operating effectively.

Management is continuously assessing and, where possible, improving procedures and controls related to financial reporting and disclosure for future periods. The financial statements and MD&A were reviewed by the Audit Committee and the Board of Directors, which approved them prior to their publication.

RISKS AND UNCERTAINTIES

Risks of Investments in Securities

The Company holds a significant equity investment in Equity One and may, from time to time, acquire investments in other real estate entities. The value of the Company's investments of this nature is subject to the risks inherent in investments in 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. Common shares are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors, including expectations regarding government, economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction, and global or regional political, economic and banking crises. As described below, such market volatility could have an adverse effect on the Company's term loans and credit facilities.

The financial condition of the Company will depend, in part, upon the performance of the securities in which the Company may invest. The value of the securities in which the Company may invest will be influenced by factors that are largely not within the Company's control, including the financial performance of the issuers of these securities, operational risks relating to the specific business activities of the issuers of these securities, the quality of assets owned by the issuers of these securities, commodity prices, exchange rates, interest rates, environmental risks, political risks, issues relating to government regulation and other financial market conditions.

There are no restrictions on the proportion of the Company's funds and no limit on the amount of funds that may be allocated to any particular investment, industry or sector. The Company may participate in a limited number of investments and, as a consequence, the Company's financial results may be substantially adversely affected by the unfavourable performance of a single investment. Completion of one or more acquisitions may result in a highly concentrated investment by the Company in a particular company, business, industry or sector.

In addition, given that the Company is a holder of U.S. equity securities and may not have sufficient access to borrowings denominated in U.S. dollars, the Company is subject to fluctuations in currency exchange rates or regulations, or the costs of currency conversion which may, from time to time, adversely impact its financial position and results of operations.

U.S./Canadian Exchange Rate Fluctuations

Given that the Company is a holder of U.S. equity securities and may not have sufficient access to borrowings denominated in U.S. dollars, the Company is subject to foreign currency fluctuations which may, from time to time, have an impact upon its financial position and results. There can be no assurance that the agreements that have been entered into by the Company to mitigate the potential impact of exchange rate fluctuations on Canadian dollar distributions will be sufficient to protect against currency exchange rate losses.

Financing, Repayment of Indebtedness and Access to Capital

The Company has leveraged its shares in Equity One. The Company may also leverage its other assets. Leveraged assets are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. A leveraged company's income and net assets tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed.

Furthermore, the Company is subject to the risks associated with refinancing, including that existing debt may not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness.

As a result, the risk of loss associated with a leveraged company is generally greater than for companies with comparatively less debt. As at December 31, 2009, the Company had approximately \$146.3 million of outstanding indebtedness.

The amount of indebtedness outstanding could require the Company to dedicate a substantial portion of its cash flow from operations to payments on debt, thereby reducing funds available for acquisitions and other business opportunities that may exist. There is also a possibility that the Company's internally generated cash may not be sufficient to repay all of its outstanding indebtedness. However, the Company may elect to repay indebtedness through refinancing or through the issuance of equity securities. Also, a credit disruption in the capital markets could have an adverse impact on the Company's ability to meet its obligations and grow its business.

The real estate industry is highly capital-intensive. The Company will require access to capital to fund its acquisitions from time to time. There is no assurance that capital will be available when needed or on favourable terms. The Company's access to debt or equity capital depends on a number of factors, including the market's perception of its growth potential, ability to pay dividends, financial condition and current and potential future earnings. Depending on the outcome of these factors, the Company could experience delay or difficulty in implementing its growth strategy on satisfactory terms, or be unable to implement this strategy.

The Board of Directors has discretion to increase the amount of outstanding debt. The decisions with regard to the incurrence and maintenance of debt are based on available acquisition opportunities for which capital is required, the cost of debt in relation to such acquisition opportunities, whether secured or unsecured debt is available, the effect of additional debt on existing financial ratios and the maturity of the proposed new debt relative to maturities of existing debt. The Company could become more highly leveraged, resulting in increased debt service costs that could adversely affect cash flows and operating results.

Real Property Ownership

All real property investments are subject to a degree of risk. They are affected by various factors including changes in general economic conditions (including, but not limited to, interest rates, unemployment levels, and 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 and the businesses in which the Company has invested.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. An anchor tenant or other major 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. No assurance can be given that the Company will be able to quickly re-lease space vacated by an anchor or major tenant on favorable terms, if at all.

Income and funds available for dividends 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 or if the Company were unable to lease a significant amount of available space in its properties on economically favourable lease terms. In addition, the Company may experience delays and incur substantial costs in enforcing its rights as lessor. The Company may also incur costs in making improvements or repairs to a property required by a new tenant. Upon expiry of a lease, there can be no assurance that the lease will be renewed or the tenant replaced.

Certain significant expenditures involved in real property investments, such as real estate taxes, ground rent, maintenance costs, insurance costs and mortgage payments, represent liabilities which must be met regardless of whether the property is producing any income or sufficient income to meet these obligations. If the Company is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or power of sale.

Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of the Company to vary its asset portfolio promptly in response to changed 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 such properties.

The Company and its direct and indirect real estate investments are subject to various requirements imposed by governmental legislation and regulation. Any change in such legislation or regulation, or the level of enforcement of same, adverse to the Company or its investments could adversely affect the operating and financial performance of the Company.

General Economic Conditions and Government Regulation

The success of all of the Company's real estate acquisitions will depend on the financial health of the tenants or the performance of the businesses underlying our investments. Adverse local, regional or worldwide economic trends that affect each respective economy could have a material adverse effect on our financial condition and results of operations. Our financial condition and results of operations could also be affected by changes in economic or other government policies or other political or economic developments in each country or region, as well as regulatory changes or administrative practices over which we have no control such as: interest rates; currency fluctuations; exchange controls and restrictions; inflation; liquidity of domestic financial and capital markets; tax policies; and other political, social and economic developments that may occur in or affect the countries or regions in which we operate or the countries or regions in which the businesses underlying our investments operate or both.

Limited Operating History

Prior to its initial public offering, the Company had acted solely as a private holding company for FCR's operations in the United States. The Company ceased active operations when it disposed of its U.S. shopping centre business in consideration for 10.5 million shares of Equity One in 2001. Since that date to the completion of the spin-off transaction, the Company only held FCR's investment in Equity One.

Accordingly, the Company has only recently re-commenced its operating activities. Its lack of recent operating history will make it difficult to assess its ability to operate profitably.

General Uninsured Losses

The Company carries commercial general liability, property, environmental, rental interruption, boiler and machinery, umbrella liability and director and officer insurance with policy specifications, limits and deductibles that the Company believes is customarily carried for similar companies. There are, however, certain types of risk (generally of a catastrophic nature such as war or terrorist acts) which may be either uninsurable, in whole or in part, or, in the opinion of management, not economically insurable. Should an uninsured or underinsured loss occur, the Company could lose its investment in, and anticipated profit and cash flows from, one or more of its assets, and the Company would continue to be obligated to repay any recourse indebtedness on such investments.

The Company cannot guarantee that material losses in excess of insurance proceeds will not occur in the future. If any of the Company's properties were to experience a catastrophic loss, it could disrupt seriously its operations, delay revenue and result in large expenses to repair or rebuild the property. Also, due to inflation, changes in laws and regulations, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed or the proceeds could be insufficient. Our ability to obtain the required insurance coverage at a competitive price may have an impact on our returns.

Risks Relating to Acquisitions

We plan to prudently acquire certain businesses and properties, or interests therein, in order to expand our operations. As a result, we will be subject to any contingent liabilities that are attached to new acquisitions, such as claims for failure to comply with government regulations or other past activities. Accordingly, there is risk regarding any undisclosed or unknown liabilities or issues concerning new acquisitions. Although the sellers of a business or property will make certain representations to us in connection with any sale, certain of the indemnification obligations are likely to be limited in duration and amount. In addition, even if we could make a claim against a particular seller for the amount that is required to be contributed, there can be no assurance that such a seller would be willing or able to satisfy any claim that may be brought or that any claim would be successful. We also may not successfully integrate an acquired business into our current operations or realize any of the anticipated benefits of its acquisition and accordingly our results of operations and financial condition could be adversely affected.

Furthermore, our acquisition strategy is dependent to a significant extent on the ability of management of the Company to identify acquisition opportunities that are suitable for us. We expect that we will face competition for acquisitions primarily from investment funds, operating companies acting as strategic buyers, construction companies, commercial and investment banks and commercial finance companies. Many of these competitors are substantially larger and have considerably greater financial, technical and marketing resources than are available to us. Some of these competitors may also have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of acquisitions. Due to the capital intensive nature of real estate, in order to finance investments we will need to compete for equity capital from institutional investors and other equity providers and our ability to consummate investments will be dependent on such capital continuing to be available. Increases in

interest rates could also make it more difficult to consummate investments because our competitors may have a lower cost of capital, which may enable them to bid higher prices for assets. These factors may create competitive disadvantages for us with respect to acquisition opportunities.

An increase in competition in the real estate market leads to lower capitalization rates for new acquisitions while a decrease in competition leads to higher capitalization rates. 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. Higher capitalization rates may have a similar negative affect on the Company's earnings growth if real property investments are not available for acquisition due to vendors being unwilling to sell or the lack of available capital at a cost which provides an appropriate return on the investment.

We cannot assure you that the competitive pressures that we will face will not have a material adverse effect on our business, financial condition and results of operations or that management of the Company will be able to identify acquisitions on our behalf that are consistent with our objectives or that generate attractive returns for our shareholders. We may lose acquisition opportunities in the future if we do not match prices, structures and terms offered by competitors or if we are unable to access sources of equity or obtain indebtedness at attractive rates. Alternatively, we may experience decreased rates of return and increased risks of loss if we match prices, structures and terms offered by competitors.

Future acquisitions will likely involve some or all of the following risks, which could materially and adversely affect our business, results of operations or financial condition: potential disruption of our current and future operations; diversion of resources, including management's time and attention; the difficulty of managing the growth of a larger organization; the risk of entering markets in which we have little experience; the risk of becoming involved in labour, commercial or regulatory disputes or litigation related to the new enterprise; and the risk of environmental or other liabilities associated with the acquired business.

Risks Relating to Joint Ventures

The Company may, from time to time, own certain properties in conjunction with other owners, in joint venture, co-ownership, partnership or other structures. In certain situations, the Company may be adversely affected by a default by a joint venture party under the terms of a mortgage, lease or other agreement. In addition, the joint venturers will likely have certain "shot-gun" and/or put options, as well as rights of first refusal and/or first offer, to purchase the Company's interest in a property which could compel the Company to purchase and/or sell the balance of the co-owned property and/or impact upon the Company's ability to dispose of its interest in a property.

Risks Relating to Investments in Medical Office Buildings

Reliance of Tenants on Third Party Payors

The revenue and profitability of most of the Company's tenants in its medical office buildings depends heavily on payments from third-party payors, including government healthcare programs (i.e., provincial health insurance plans) and managed care organizations. Payments from government and private insurance payors represent a significant portion of the revenues of such tenants. If payments from these

third-party payors were reduced or eliminated, the revenue and profitability of such tenants in the Company's medical office buildings may be adversely affected. Furthermore, as a result of the strong government control of the Canadian health care system, a physician shortage and the limited potential of rental increases due to physicians' current compensation scheme whereby most physicians do not receive an annual salary but, rather, receive a fee per visit or service, the growth potential of the medical office sector in Canada may be limited. Moreover, the general prohibition of practicing in both public and private medical practices limits the ability of physicians to increase their income levels. In addition, as the funding of prescription drugs is regulated by the government, a change in funding policy can impact pharmacy business owners and, consequently, medical office building owners. The above-noted factors could have a material adverse effect on the revenues generated by the Company's medical office buildings.

High Construction Costs

Construction costs of medical office buildings tend to be higher than other forms of development as a result of the highly specialized construction and structural requirements of medical office buildings. Physician suites also tend to be smaller and have extensive plumbing and HVAC requirements. Replacement costs, including land, tenant inducements, leasing commissions and soft costs, are likely to exceed \$200 per square foot whereas the market value is likely to be less.

General Medical Lease Risks

It is market practice to include in physicians' leases an option to terminate granted to the tenant in the event that a physician (i) becomes disabled to the extent that he/she can no longer continue his/her medical practice, (ii) is at least 65 years of age and elects to completely retire from the practice of medicine, or (iii) dies. It is also market practice to include in laboratories' leases an option to terminate if government funding structures are materially changed and the laboratory is precluded from conducting its business as laboratories are principally funded by the province.

Licensing, Certification and Accreditation Requirements

Healthcare facilities, such as those operated by many of the Company's tenants, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements imposed by provincial health insurance plans and private payors. Receipt and renewal of such licenses, certifications and accreditations are often based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative compliance actions by certain of such tenants that could be burdensome and expensive. Management believes that these tenants are currently in material compliance with all applicable licensing, certification and accreditation requirements. The applicable standards may change in the future, however, and there can be no assurance that these tenants will be able to maintain all necessary licenses or certifications or that they will not be required to incur substantial costs in doing so. The failure to maintain all necessary licenses, certifications and accreditations, or the requirement to incur substantial costs to maintain them, could have a material adverse effect on the business of these tenants. This could have a material adverse effect on the revenues generated by the Company's medical office buildings.

Dependence on Physician Relationships

The success of the Company's medical office buildings depends, in part, on the Company's ability to attract physicians to perform medical procedures in its medical office buildings. Although ProMed has had success in attracting physicians in the past, there can be no assurance that such success will continue in the future. In addition, there can be no assurance that physician groups performing procedures at the Company's medical office buildings will maintain successful medical practices or that one or more key members of a particular physician group will continue practicing with that group or that the members of that group will continue to perform procedures at the Company's medical office buildings at current levels, or at all. Moreover, the shortage of certain physicians in Canada may make it difficult to locate new tenants, particularly anchor tenants such as general practitioners. This could have a material adverse effect on the revenues generated by the Company's medical office buildings.

Litigation, Professional Liability Claims and Availability of Insurance

Most of the Company's tenants are, from time to time, subject to litigation claims in the ordinary course of their business. In particular, these tenants can be subject to claims relating to actions of medical personnel performing services in the premises leased from the Company. Historically, such medical tenants have been able to obtain what management of the Company believes is adequate insurance to cover these risks. However, the cost of this insurance is increasing and there can be no assurance that these tenants will be able to obtain adequate insurance in the future on economically reasonable terms, or at all. If the insurance which these tenants have in place from time to time is not sufficient to cover claims which are made, the resulting shortfall could have a material adverse effect on the business and operations of these tenants. In turn, this could have a material adverse effect on the revenues generated by the Company's medical office buildings.

Risks Relating to the Company's Relationship with the Gazit Group

Conflicts of Interest and Competition with the Gazit Group

Although the Company and ProMed U.S. have entered into the Relationship Agreement to establish, among other things, each parties' respective rights and obligations in the North American medical office building sector, certain conflicts of interest may nonetheless arise from time to time between management of the Company and management of ProMed U.S. Any failure to properly manage a conflict of interest could have a material adverse effect on the Company's ability to achieve its objectives.

Moreover, certain entities within the Gazit Group may pursue the same investment opportunities as the Company. Accordingly, the Gazit Group may, from time to time, directly compete with the Company for certain investment opportunities. The competition posed by the Gazit Group could have a material adverse effect on the Company's ability to achieve its objectives.

Significant Shareholders

The Gazit Group owns approximately 65.5% of the outstanding Common Shares. The market price of the Common Shares could be significantly affected if the holders of these shares sell them or are perceived by the market as intending to sell them. In addition, for as long as the Gazit Group maintains a controlling interest in the Company, it will generally be able to approve any matter submitted to a vote of

shareholders of the Company that requires the approval of a simple majority of shareholders voting at the meeting, including, among other things, the election of the Board of Directors. The Gazit Group will also be able to exercise a controlling influence in the event of a take-over bid for the Company. This level of ownership may discourage third parties from seeking to acquire control of the Company.

Loss of Key Personnel

The Company will depend on the diligence, skill and business contacts of its management and the information and opportunities they generate during the normal course of their activities. Accordingly, the Company's future success will depend on the continued service of these individuals, who are not obligated to remain employed with the Company. The Company cannot predict the impact that any such departures will have on the Company's ability to achieve its objectives. The departure of a significant number of its management for any reason, or the failure to appoint qualified or effective successors in the event of such departures, could have a material adverse effect on the Company's ability to achieve its objectives.

Risks Relating to Taxation

Our structure, including the structure of our future operating entities, is and will be based on prevailing taxation law and practice in the local jurisdictions in which we operate. Any change in tax legislation (including in relation to taxation rates) and practice in these jurisdictions could adversely affect such company or entity, as well as the net amount of dividends that may be payable to our shareholders in the future. Furthermore, the manner in which we seek to structure acquisitions is dependent on the tax legislation and practice applicable at that time in the relevant jurisdiction. This may mean that we find it difficult to carry out acquisitions in a particular territory or in certain asset classes in any such territory for a period of time. Taxes and other constraints that would be applicable to us in such jurisdictions may not be applicable to local institutions or other parties and such parties may therefore have a significantly lower effective cost of capital and a corresponding competitive advantage in pursuing such acquisitions.