



GAZIT AMERICA INC.
Management's Discussion
and Analysis
September 30, 2011

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") should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the years ended December 31, 2010 and 2009. Additional information, including the Company's current Annual Information Form, is 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 unaudited condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). The unaudited condensed consolidated financial statements 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 November 10, 2011.

FORWARD LOOKING STATEMENT ADVISORY

Certain statements contained in 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, reliance on third parties, risks related to investments in securities, 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 update publicly any such statement or to reflect new information or the occurrence of future events or circumstances, except as required by applicable securities law. These forward-looking statements are made as of November 10, 2011.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

(in thousands of dollars, except share and per share amounts, and percentage of ownership)
(unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2011	2010	2011	2010
Rental revenue	\$4,209	\$1,042	\$10,033	\$2,914
Net operating income ⁽¹⁾	\$2,348	\$502	\$5,361	\$1,399
Dividends from Equity One, Inc.	\$3,081	\$3,222	\$9,218	\$9,650
Equity income from Equity One, Inc.	\$ -	\$1,391	\$8,372	\$5,964
Fair value gain on investment in Equity One Inc.	\$ -	\$ -	\$34,136	\$ -
Interest expense, net	\$2,992	\$2,433	\$8,038	\$6,931
Net income (loss)	(\$2,988)	(\$1,640)	\$23,542	(\$6,164)
Earnings per share - basic	(\$0.13)	(\$0.12)	\$1.21	(\$0.48)
Earnings per share - diluted	(\$0.13)	(\$0.12)	\$1.20	(\$0.48)
Common shares outstanding	23,307,082	15,537,452	23,307,082	15,537,452

	September 30, 2011	December 31, 2010
Investment properties	\$149,760	\$30,541
Total assets	\$406,790	\$253,578
Total long-term liabilities	\$261,214	\$160,483
Investment in Equity One, Inc. ⁽²⁾	\$237,398	\$203,154
Number of Equity One, Inc. shares owned	14,280,069	14,280,069
Percentage of ownership	12.5%	13.9%
Equity One share price	US\$15.86	US\$18.18

(1) Net Operating Income ("NOI") is defined as rental revenues less property operating expenses. Management considers NOI to be a meaningful indicator of operations and uses it as their primary measurement of property operating performance.

(2) Fair market value based on closing trading price of Equity One as at September 30, 2011 on the New York Stock Exchange.

BUSINESS OVERVIEW AND STRATEGY

The Company's goal is to acquire best in class medical office and mixed-use health care retail properties.

The Company's growth strategy includes adding properties in core urban markets to increase regional density; undertaking strategic development and redevelopment opportunities; focusing on assets where it can add value through proactive asset management; targeting portfolios of both public and private companies; and, considering joint ventures and partnerships.

Currently, a significant portion of the Company's assets are denominated in U.S. dollars:

In thousands of dollars (Cdn equivalent) as at September 30, 2011	U.S. \$ denominated	Cdn \$ denominated	Total
Assets	\$243,462	\$163,328	\$406,790
Liabilities	190,122	82,654	272,776
Net assets at book value	\$53,340	\$80,674	\$134,014

At September 30, 2011, the Company's interests include 676,000 square feet of Canadian medical office properties and an approximate 12.5% ownership interest in Equity One, Inc. ("Equity One").

During the third quarter, the Company acquired the Meadowlark Health and Shopping Centre in Edmonton, Alberta in a 50/50 joint venture with First Capital Realty Inc. ("FCR") for an aggregate purchase price of \$84.0 million, of which \$42.0 million (excluding transaction costs and working capital adjustments) is the Company's proportionate share. The purchase price was funded in cash and with a new \$50.0 million 10-year first mortgage, of which \$25.0 million is the Company's proportionate share. The Meadowlark Health & Shopping Centre consists of nine separate single storey buildings, comprising approximately 306,000 square feet of gross leasable area (of which 153,000 is the Company's proportionate share) on a 23 acre site. It is located on the northwest corner of 87th Avenue and 156th Street in Edmonton, Alberta. The property is currently 98% leased with a strong mix of medical office and retail tenants.

During the first quarter of 2011, the Company also acquired four medical office properties and one re-development property representing 357,000 square feet for \$75.4 million (excluding working capital of \$0.3 million), or \$36.7 million net of new or assumed financing. There were no properties purchased during the second quarter of 2011.

Following the close of the third quarter of 2011, the Company acquired one additional property in Toronto, Ontario, representing an additional 40,000 square feet. Refer to "Subsequent Events" section for further detail.

Below is a summary of the Company's portfolio as at November 10, 2011:

Property	Location	Size (sq ft)	Acquisition date	Acquisition cost (millions)
Coronation Medical Centre ⁽¹⁾	Cambridge, ON	68,000	Owned at time of IPO Aug 2009	
London Medical Centre	London, ON	49,000	Owned at time of IPO Aug 2009	
Nepean Medical Centre ⁽¹⁾	Ottawa, ON	49,000	Mar-10	\$13.4
Westminster Centre ⁽¹⁾	London, ON	113,000	Jan-11	\$13.9
Place Andocour	Longueuil, QC	61,000	Jan-11	\$15.0
5700 Côte-des-Neiges	Montreal, QC	92,000	Jan-11	\$25.4
71 King Street	Mississauga, ON	49,000	Mar-11	\$10.2
Kent Professional Building	Ottawa, ON	42,000	Mar-11	\$10.6
Meadowlark Health & Shopping Centre ⁽¹⁾	Edmonton, AB	153,000 ⁽²⁾	Jul-11	\$42.4
1670 Bayview Avenue	Toronto, ON	40,000 ⁽³⁾	Nov-11	\$12.4
Total		716,000		

(1) Redevelopment opportunity

(2) 50% proportionate interest

(3) Closed post-quarter end

Equity One is a United States real estate investment trust (“REIT”) traded on the New York Stock Exchange under the ticker symbol “EQY”. Equity One is a fully integrated REIT specializing in the acquisition, asset management, development and re-development of quality retail properties located in the United States. Equity One is one of the largest shopping centre REITs in the United States, with US\$3.0 billion in assets and interests in 199 properties consisting of 176 shopping centres comprising approximately 20.7 million square feet, eight projects in development/redevelopment, eight non-retail properties, seven parcels of land and joint venture interests in sixteen properties totalling approximately an additional 2.7 million square feet as at September 30, 2011.

On January 4, 2011, Equity One closed its acquisition of Capital and Counties USA Inc. through a joint venture with Capital Shopping Centres Group PLC in a transaction valued at approximately US\$600 million. Capital Shopping Centres Group PLC received 4.1 million shares of Equity One common stock and 11.4 million joint venture units, after accounting for working capital adjustments. Capital Shopping Centres Group PLC may redeem its units in the joint venture for Equity One common stock on a one-for-one basis, or cash, at Equity One’s option. In addition, Equity One made a public offering issuing 5.0 million common shares as well as a private placement to issue an additional 1.0 million common shares. As a result of the issuance of these Equity One shares, the Company’s ownership interest in Equity One decreased from approximately 13.9% as at December 31, 2010 to approximately 12.5% as at September 30, 2011.

Certain of the information concerning Equity One contained in this MD&A has been taken from or is based upon publicly available documents and records on file with the United States Securities and Exchange Commission and other public sources. Although the Company has no knowledge that would indicate that any statements contained herein taken from or based upon such documents and records are untrue or incomplete, the Company assumes no responsibility for the accuracy of the information contained in such documents, or for any failure by Equity One to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to the Company.

The discussion in this MD&A will focus on the Company’s financial condition and results of operations as at and for the three and nine months ended September 30, 2011 and 2010.

Property portfolio

As at September 30, 2011, the Company had interests in nine medical office properties located in Montreal and Longueuil, Quebec, in Cambridge, London, Mississauga and Ottawa, Ontario, and in Edmonton, Alberta. The properties total approximately 676,000 square feet of leasable area and were approximately 88.5% occupied at September 30, 2011. The Company intends to continue to grow its medical office and health care retail property portfolio through the acquisition of existing properties in North America and/or the re-development of other commercial real estate into medical uses. Following the close of the third quarter of 2011, the Company acquired an additional property in Toronto, Ontario, representing an additional 40,000 square feet. Refer to “Subsequent Events” section for further detail.

Investment in Equity One

Gazit America owns approximately 14.3 million shares of Equity One as of September 30, 2011 (December 31, 2010 – approximately 14.3 million shares), representing approximately 12.5% (December 31, 2010 – 13.9%) of the total outstanding common shares of Equity One.

The Company's investment in Equity One increased significantly to \$237.4 million as at September 30, 2011 from \$203.2 million as at December 31, 2010. The increase in book value is due largely to the gain in recording the investment at quoted market price as a result of the reclassification of the investment from an equity accounted investment in associate to an available-for-sale financial asset (refer also to Note 6 of the financial statements).

RESULTS OF OPERATIONS

Net operating income

NOI is defined as rental revenues less property 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 IFRS and that the Company's calculation of NOI may differ from that of other entities.

Rental revenues are comprised of base rents charged to tenants, recoveries of property operating expenses and other revenues. Base rents are contractual rents assessed before any additional rents as required in a lease. Operating expense recoveries are amounts due from tenants, in addition to the base rent, for common area maintenance, real estate taxes and other recoverable expenses. Other revenues consist of parking revenues, straight-line rents, lease termination and other ancillary income. For the nine months ended September 30, 2011, base rents and operating expense recoveries comprised approximately 55% and 36%, respectively, (nine months September 30, 2010 – 46% and 38%, respectively), of total rental revenues and other rental revenues, such as parking revenue, account for the remainder of revenues. For the three months ended September 30, 2011, base rents and operating expense recoveries comprised approximately 54% and 37%, respectively (three months ended September 30, 2010 – 48% and 37%, respectively). The new property acquisitions for the three and nine months ended September 30, 2011 significantly contributed to the increase in base rents and operating expense recoveries.

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.

NOI for the three and nine months ended September 30, 2011 and 2010 was as follows:

<i>(thousands of dollars)</i>	For the three months ended September 30		For the nine months ended September 30	
	2011	2010	2011	2010
Rental revenues	\$4,209	\$1,042	\$10,033	\$2,914
Property operating expenses	1,861	540	4,672	1,515
Net operating income	\$2,348	\$502	\$5,361	\$1,399
Operating margin	55.8%	48.2%	53.4%	48.0%

NOI for the three and nine months ended September 30, 2011 increased \$1.8 million and \$4.0 million, respectively, as compared to the same period in the prior year primarily as a result of the acquisition of new properties in the first nine months of 2011. Operating margin increased due to the impact of the acquisitions during the first nine months of 2011.

NOI on a same property basis for the three and nine months ended September 30, 2011 was \$0.5 million and \$1.6 million, respectively, consistent with \$0.5 million and \$1.4 million for the same period in the prior year.

At September 30, 2011, including the new property acquisitions from date of acquisition, weighted average occupancy was 88.5% and the average base rental rate was \$19.68 per square foot (September 30, 2010 – 84.5% and \$14.52, respectively).

Lease expiries as at September 30, 2011 were as follows:

Year of Expiry	Area Sq. Ft.	Area %
Remainder of 2011	22,000	3.3%
2012	107,000	15.8%
2013	122,000	18.0%
2014	58,000	8.6%
2015	35,000	5.2%
2016	55,000	8.1%
Beyond	200,000	29.5%
Vacant	77,000	11.5%
Total portfolio	676,000	100.0%

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. 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, calculated using IFRS and net of a provision for future tax on the undistributed earnings of Equity One, was recorded as equity income until June 30, 2011. Under the equity method of accounting, used by the Company until June 30, 2011 in respect of its investment in Equity One, dividends received from Equity One were accounted for as a reduction in the investment in Equity One. The dividends received by the Company from its investment in Equity One for the three and nine months ended September 30, 2011 and 2010 are presented below.

<i>(thousands of dollars, except per share)</i>	For the three months ended September 30		For the nine months ended September 30	
	2011	2010	2011	2010
Dividends received				
US\$	3,142	3,120	9,425	9,360
Cdn\$	3,081	3,222	9,218	9,650
US\$ / Equity One share owned	0.22	0.22	0.66	0.66

Equity income was nil and \$8.4 million, respectively, for the three and nine months ended September 30, 2011, compared to \$1.4 million and \$6.0 million, respectively, during the same period in the prior year. The increase for the nine months ended September 30, 2011 is largely the result of acquisitions made by Equity One during 2010 and the first half of 2011. The decrease for the three months ended September 30, 2011 is the result of the reclassification of the investment in Equity One to a financial asset as discussed below.

Until June 30, 2011, the Company adjusted the investment in Equity One at each reporting period under the equity basis of accounting to include the Company's share of earnings of Equity One and any additional contributions or distributions. At June 30, 2011, the Company reclassified its investment in Equity One from an investment in associate to an available-for-sale financial asset because it was determined that the Company did not have the ability to exercise significant influence over Equity One based on a number of considerations. Among other things, the Company's equity interest in Equity One has declined since its original acquisition, and declined further in the nine months ended September 30, 2011 as the Company did not participate in Equity One's public offering which closed in May 2011. The Company's ownership percentage in Equity One may decline further as the Company focuses on its core business in investment properties.

Dividends from Equity One

As a result of the reclassification of the investment in Equity One discussed above, the Company started recognizing the dividends received from Equity One into income after June 30, 2011. Dividends from Equity One recognized in income for the three and nine months ended September 30, 2011 was \$3.1 million and \$3.1 million, respectively (September 30, 2010 – nil and nil). Total cash dividends received from Equity One for the nine months ended September 30, 2011 were \$9.2 million (September 30, 2010 – \$9.7 million).

Interest expense, net

Interest expense was \$3.1 million and \$8.3 million for the three and nine months ended September 30, 2011, respectively (\$2.5 million and \$7.0 million for the three and nine months ended September 30, 2010, respectively). The increase is a result of higher outstanding debt balances during the respective periods due to new and assumed mortgages and draws on the Canadian dollar credit facility, partially offset by a decrease in the rate on the interest rate swaps. All term loans and revolving credit facilities bear floating rates of interest; however, the rate on US\$50.0 million (approximately 46% of the US dollar term loan and revolving credit facility borrowings) has been fixed at a weighted average rate of 5.62% (September 30, 2010 – 7.40%). The floating rate debt bears interest at LIBOR plus 200 to 305 basis points (see Capital Structure and Liquidity section).

Included in interest expense, net is interest and other income, comprised mainly of dividends earned on marketable securities (other than Equity One as discussed above) and the gain on the sale of marketable securities. Interest and other income was \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2011, respectively (September 30, 2010 – \$40,000 and \$0.1 million, respectively). The increase in interest and other income for the nine months ended 2011 as compared to the same periods in 2010 is due to an increased investment by the Company in marketable securities.

At the closing of the spin-off transaction (refer to Note 1 of the financial statements), US\$36.0 million intercompany indebtedness owing to FCR was formalized into an unsecured subordinated interest-only term loan bearing interest at the rate of 8.5%.

For the nine months ended September 30, 2011, \$2.0 million of interest expense related to investment properties, and \$6.3 million related to the investment in Equity One (September 30, 2010 – \$0.5 million and \$6.5 million, respectively).

General and administrative expenses

General and administrative expenses consist primarily of salaries and benefits, stock-based compensation, professional fees, and other miscellaneous items.

General and administrative expenses were \$1.5 million and \$4.9 million for the three and nine months ended September 30, 2011, respectively (September 30, 2010 – \$1.1 million and \$3.4 million, respectively) and have increased primarily due to the higher level of compensation expense with the addition of new personnel and employee bonuses. Included in general and administrative expenses for the three and nine months ended September 30, 2011 are \$0.2 million and \$0.8 million, respectively of non-cash compensation expense related to the issue of stock options in 2010 and 2011, and \$0.1 million and \$0.2 million, respectively of non-cash directors' fees.

Unrealized loss on interest rate swaps and option

As at September 30, 2011, no interest rate swaps were considered hedges for accounting purposes and changes in mark-to-market values were directly charged to net income. These interest rate swaps were also not considered hedges for accounting purposes as at December 31, 2010. During the three and nine months ended September 30, 2011, a total of \$1.0 million and \$1.4 million, respectively (September 30, 2010 – \$1.3 million and \$3.5 million loss, respectively) in mark-to-market losses were recorded through unrealized loss on interest rate swaps and option. In addition, a loss of \$0.3 million and \$0.6 million for the three and nine months ended September 30, 2011, respectively (September 30, 2010 – nil and nil, respectively) were recognized on the change in mark-to-market value of the Company's option to extend its subordinated note payable to FCR at a fixed rate of 8.5%.

Fair value gain (loss) on investment properties

For the three and nine months ended September 30, 2011, a net gain of \$0.1 million and \$1.0 million, respectively (September 30, 2010 – net loss of \$0.2 million and \$0.9 million, respectively) was recognized on the change in fair market value of investment properties. The increase on a same-property basis is due to increased occupancy and lower capitalization and discount rates. The Company's portion of any fair value gain or loss on the Equity One properties until June 30, 2011 is included in equity income.

Fair value gain on investment in Equity One, Inc.

Effective June 30, 2011, the investment in Equity One was recorded at fair value. The change from the equity method of accounting was recorded as a fair value gain on investment of \$34.1 million, including the realization of the accumulated other comprehensive income of \$1.8 million related to Equity One, and a reclassification of a deferred tax liability of \$23.9 million. After June 30, 2011, as an available-for-sale financial asset, the investment in Equity One was recorded at fair value with gains and losses recognized in other comprehensive income.

Income taxes

During the three months and nine months ended September 30, 2011, the Company recorded \$0.4 million and \$27,000, respectively in current income tax recovery (September 30, 2010 – \$0.4 million and \$1.2 million current income tax expense, respectively). Current income taxes relate to net taxes receivable or payable by the Company's U.S. subsidiaries resulting largely from the estimated taxable amount of Equity One dividends.

Deferred income taxes result from deductible or taxable temporary differences of the Company and its various subsidiaries. Deferred income tax expense recognized for the three and nine months ended September 30, 2011 was \$0.2 million and \$11.8 million, respectively (September 30, 2010 – recovery of \$0.7 million and \$1.8 million, respectively). The majority of deferred income tax expense in 2011 relates to the gain resulting from the reclassification of investment in Equity One.

CAPITAL STRUCTURE AND LIQUIDITY

Mortgages, credit facilities, and term loans

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, taking into account the long-term business objectives of the Company.

<i>(thousands of dollars)</i>	Due Date	Weighted Average Interest Rate ¹	September 30, 2011	Weighted Average Interest Rate ¹	December 31, 2010
Fixed rate mortgages	Sep. 2014 - Jul. 2021	5.14%	\$71,489	5.78%	\$8,911
Secured revolving C\$13.6 million credit facility					
Floating rate	May. 2012	4.25%	6,000		-
Total Canadian dollar denominated			77,489		8,911
Secured term loans					
Floating rate hedged					
with interest rate swaps	Jan. 2013	5.62%	52,410	5.62%	49,730
Floating rate	Jan. 2013	4.90%	30,188	3.11%	30,136
Floating rate			-	2.04%	7,634
			82,598		87,500
Secured revolving US\$35 million credit facility					
Floating rate	Jan. 2013	4.05%	24,218	2.81%	22,979
Secured revolving US\$8.0 million credit facility					
Floating rate	Apr. 2013	2.30%	7,848		-
Total US dollar denominated			114,664		110,479
Total			192,153		119,390
Unamortized deferred financing costs			(581)		(512)
			\$191,572		\$118,878

¹ Includes impact of interest rate swaps

Canadian Dollar Denominated Debt

As at September 30, 2011, the Company had seven mortgages payable totalling \$71.5 million (accounting value of \$71.5 million due to mark-to-market adjustment on acquisition). These mortgages have fixed rates of interest ranging from 4.67% to 5.98% (accounting range of 4.50% to 5.98% due to mark-to-market adjustment on acquisition).

During the third quarter of 2010, the Company completed a secured revolving credit facility with a Canadian chartered bank in the amount of \$8.5 million. During the first quarter of 2011, the Company increased the credit facility limit to \$13.6 million by adding as security one of the properties acquired during the first quarter. The credit facility matures in May 2012 and bears interest based on Canadian prime rate or bankers' acceptance rates plus a reasonable spread. As at September 30, 2011, \$6.0 million (December 31, 2010 – nil) was drawn on this facility.

U.S. Dollar Denominated Debt

The term loans and credit facilities are secured by 14,080,064 shares of Equity One. At September 30, 2011, the Company had total borrowings on its U.S. dollar denominated term loans and credit facilities of \$114.7 million (US\$109.4 million), compared to \$110.5 million (US\$111.1 million) at December 31, 2010. The increase results primarily from scheduled repayment of term loans offset by exchange rate fluctuations.

Floating rate U.S. dollar denominated term loans total \$82.6 million (US\$78.8 million). These term loans bear interest at LIBOR plus approximately 305 basis points.

A portion of the floating rate term loans is hedged with interest swaps comprised of LIBOR swap agreements on a notional US\$50 million balance (December 31, 2010 – US\$50 million) at a fixed rate of 5.62% (December 31, 2010 – 5.62%) including applicable spreads. The hedges mature between March 2013 and November 2016.

As at September 30, 2011, the Company had a US\$35.0 million (December 31, 2010 – US\$25.0 million) credit facility with its primary U.S. lender. The balance outstanding on this credit facility was \$24.2 million (US\$23.1 million) as at September 30, 2011 and bears interest based on LIBOR plus spreads. In addition, the Company had a US\$8.0 million (December 31, 2010 – US \$8.0 million term loan) credit facility with another U.S. lender. The balance outstanding on this credit facility was \$7.8 million (US\$7.5 million) as at September 30, 2011 and bears interest based on LIBOR plus spreads.

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

Loan payable to affiliated entity

As at September 30, 2011, the Company had a \$37.7 million (US\$36.0 million) unsecured subordinated note outstanding to FCR that is accounted for as loan payable to affiliated entity (non-current). 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 at the same interest rate of 8.5%. The Company's option to extend at the fixed rate of 8.5% represents an embedded derivative for accounting purposes. The fair value of this option at September 30, 2011 was \$0.1 million and is included in other non-current assets, and an offsetting payable of \$0.7 million to FCR has been included in the total loan from FCR. For the three and nine months ended September 30, 2011, a recovery of \$0.1 million and \$0.3 million, respectively were recognized in interest expense, and \$0.3 million and \$0.6 million, respectively in fair value loss on the related derivative asset.

The table below summarizes the Company's debt to asset ratio:

<i>(thousands of dollars)</i>	September 30 2011	December 31 2010
<i>Fair value of assets</i>		
Investment properties	\$149,760	\$30,541
Investment in Equity One	237,398	203,154
	387,158	233,695
<i>Debt</i>		
Mortgages, credit facilities and term loans	\$192,153	\$119,390
Loan payable to affiliated entity	38,462	36,892
	230,615	156,282
Ratio	60%	67%

Contractual obligations

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

<i>(thousands of dollars)</i>	Total	Payments due by period			
		Remainder 2011	2012-2013	2014-2015	Thereafter
Mortgages					
Scheduled amortization	\$ 15,520	\$ 414	\$ 3,648	\$ 3,706	\$ 7,752
Payments on maturity	55,969	-	-	13,269	42,700
Total mortgage obligations	71,489	414	3,648	16,975	50,452
U.S. term loans	82,598	-	82,598	-	-
U.S. credit facilities	32,066	-	32,066	-	-
Canadian credit facility	6,000	-	6,000	-	-
Loan payable to affiliated entity ⁽²⁾	38,462	67	528	37,867 ⁽¹⁾	-
Total contractual obligations	\$ 230,615	\$ 481	\$ 124,840	\$ 54,842	\$ 50,452

⁽¹⁾ The Company has the option to extend the US\$36 million loan with FCR for an additional five-year term.

⁽²⁾ Including amortization of embedded derivative premium on FCR loan.

Shareholders' equity

At September 30, 2011, shareholders' equity amounted to \$134.0 million compared to \$82.6 million at December 31, 2010. The increase was attributable primarily to a rights offering which closed on May 16, 2011 and to income earned in the period, offset by other comprehensive loss, net of deferred tax, resulting largely from the fair value loss recognized on the investment in Equity One.

On May 16, 2011, the Company issued a total of 7,768,878 common shares and 7,768,878 warrants (the "May warrants") pursuant to a rights offering at a price of \$6.30 per unit for gross proceeds of approximately \$48.9 million. Of the net proceeds from the rights offering, \$32.9 million was utilized to repay the bridge facility with Gazit Maple Inc. ("Gazit Maple"), the Company's largest shareholder, entered into in the first quarter of 2011, including interest, and \$6.1 million was utilized to repay credit facilities. The remainder was used for general corporate purposes.

In connection with this rights offering, the warrants issued in September 2010 (the "September warrants") were adjusted in accordance with their anti-dilution provisions. Each September 2010 warrant entitles the holder to purchase one common share at a price of \$5.63 (compared to \$6.00) per share up to November 30, 2013 and at

\$6.57 (compared to \$7.00) per share thereafter until expiry at November 30, 2015. In addition, the number of shares issuable upon exercise of the September warrants was adjusted from 1 common share to 1.0656 common shares per warrant. There are 2,688,823 September warrants outstanding as at September 30, 2011 (exercisable for 2,865,210 common shares).

A total of 23,307,082 common shares and 10,457,701 warrants (exercisable for 10,634,088 common shares) were outstanding as at September 30, 2011.

Shareholders' equity at September 30, 2011 included accumulated other comprehensive losses of \$22.9 million (December 31, 2010 – \$1.5 million), which consisted primarily of fair value adjustment recognized on the investment in Equity One, net of tax, offset by unrealized currency translation adjustments. The accumulated unrealized currency translation adjustment represents the difference between the U.S dollar exchange rate in effect as at December 31, 2010, and the U.S. dollar exchange rate as at September 30, 2011.

Share options

As at September 30, 2011 the Company was authorized to grant up to 1,292,500 common share options to the directors, officers, employees, and consultants of the Company. This represents 5.5% of the Company's issued and outstanding common shares as at September 30, 2011. Options granted by the Company generally expire after ten years and vest over three years.

In the three and nine months ended September 30, 2011, the Company granted a total of 106,500 share options with an exercise price of \$6.75. These share options had a total fair value of approximately \$0.3 million as at September 30, 2011. During the nine months ended September 30, 2011, 127,500 options with an exercise price of \$6.48 were forfeited. As at September 30, 2011, 376,000 common share options are available to be granted.

The fair value associated with the options issued was calculated using the Black-Scholes Model for option valuation, assuming an average volatility of 55% to 65% on the underlying shares, a 5% to 10% forfeiture rate, a five to ten year term to expiry with a corresponding weighted average risk-free interest rate (using Canada bond rate at the grant date). One third of the share options vest on each of the three anniversary dates following the grant dates.

Following the Company's rights offering completed in May 2011, the exercise prices of the outstanding options were adjusted by approximately 6% (from \$6.48 to \$6.08 and from \$6.75 to \$6.31, except for options granted in February 2011 whose exercise price remained at \$6.75) in accordance with the anti-dilution provision contained within the Company's Stock Option Plan. There was no income impact from this price adjustment.

Deferred share units

As at September 30, 2011, a total of 175,000 common shares have been reserved for issuance under the deferred share unit ("DSU") plan (the "DSU Plan"). Directors, at their option, may elect to receive board and committee retainers and fees in the form of DSUs. As at September 30, 2011, a total of 87,581 DSUs have been granted to directors.

Warrants

In September 2010, 2,689,575 warrants were issued in a rights offering and private placement. Each warrant entitles the holder to purchase one common share at a price of \$6.00 per share up to November 30, 2013, and at \$7.00 per share thereafter subject to adjustment from time to time. The September warrants expire on November 30, 2015. In May 2011, 7,768,878 new warrants were issued in a rights offering. Each warrant entitles the holder to purchase one common share at a price of \$7.50 per share up to April 14, 2014, and at \$8.50 per share thereafter subject to adjustment for the anti-dilution provision from time to time. The May warrants expire on November 30, 2016.

In connection with the issuance of the May warrants that closed on May 16, 2011, the exercise prices for the September warrants to purchase one common share were adjusted downward to \$5.63 and \$6.57, respectively, in accordance with their anti-dilution provisions. In addition, the number of shares issuable upon exercise of the September warrants was adjusted from 1 common share to 1.0656 common shares per warrant.

As at September 30, 2011, there were 2,688,823 September warrants (exercisable for 2,865,210 common shares) and 7,768,878 May warrants (exercisable for 7,768,878 common shares) outstanding for a total of 10,457,701 outstanding warrants (exercisable for 10,634,088 common shares). During the nine months ended September 30, 2011, 742 warrants were exercised for gross proceeds of \$4,452, and 742 common shares were issued.

Liquidity

Cash flows generated from operating the Company's rental properties and dividends from the Company's 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 upon occupancy levels and rental rates achieved at the Company's 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 rather with proceeds from refinancing and/or capital market activities.

In addition, as at September 30, 2011, the Company had approved credit facilities in U.S. and Canadian funds. The approved U.S. dollar denominated credit facilities total US\$43.0 million (Canadian equivalent of \$45.1 million) with an undrawn amount of US\$12.4 million (Canadian equivalent of \$13.0 million) available to satisfy any liquidity requirements. The Canadian dollar denominated credit facility, with a limit of \$13.6 million, had \$6.0 million drawn at September 30, 2011.

In the normal course of business, the Company may be required to make capital investments in its property portfolio for maintaining rental revenues from current leases. Revenue enhancing and repositioning expenditures are discretionary expenditures which increase the revenue generating ability of the Company's properties. 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 expenditure is revenue enhancing or sustaining.

The following table summarizes the Company's capital expenditure with respect to investment property:

<i>(thousands of dollars)</i>	Three months ended		Nine months ended	
	2011	September 30 2010	2011	September 30 2010
Revenue maintaining expenditure	174	41	312	183
Revenue enhancing expenditure	38	-	200	-
	212	41	512	183

Foreign currency translation

Since the Company's functional currency is the Canadian dollar, the assets and liabilities denominated in United States dollars relating to the Company's subsidiaries operating in the United States are translated into Canadian dollars at period-end exchange rates. A significant portion of the Company's assets and liabilities are denominated in U.S. dollars. At September 30, 2011, the Canadian dollar to United States dollar exchange rate (\$Cdn/\$US) was \$1.0482 (December 31, 2010 – \$0.99). Based on operating results for the nine months ended September 30, 2011, every one cent change in the Canadian dollar to United States dollar exchange rate, would impact net income and/or OCI by approximately \$0.5 million or \$0.021 per share on an annualized basis, while net assets would change by approximately \$0.5 million or \$0.021 per share and cash provided by operating activities by approximately \$42,000 or \$0.002 per share on an annualized basis.

Interest rate risk

Based on the Company's floating rate debt position as at September 30, 2011, a 100 basis point change in interest rates would change its annual interest expense by approximately \$0.7 million.

Contingencies

The Company may be involved in litigation and claims which arise from time to time in the normal course of business. The Company believes that 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.

QUARTERLY FINANCIAL INFORMATION

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

	2011 (IFRS) ⁽¹⁾			2010 (IFRS) ⁽¹⁾				2009 (GAAP) ⁽¹⁾
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total rental revenues	4,209	3,500	2,324	1,047	1,042	1,103	769	708
Net operating income	2,348	1,862	1,151	22	502	581	316	293
Equity One income	-	3,051	7,273	1,408	1,391	2,484	2,089	1,024
Interest expense	3,069	2,851	2,413	1,995	2,472	2,276	2,259	2,311
Net income (loss)	(2,988)	22,138	4,392	964	(1,640)	(3,579)	(945)	1,547
Basic earnings (loss) per share ⁽²⁾	(0.13)	1.13	0.28	0.06	(0.12)	(0.28)	(0.07)	0.12
Diluted earnings (loss) per share ⁽²⁾	(0.13)	1.12	0.28	0.06	(0.12)	(0.28)	(0.07)	0.12
Common shares outstanding	23,307,082	23,307,082	15,537,586	15,537,462	15,537,452	12,847,877	12,847,877	12,847,877
Investment in Equity One	237,398	256,731	200,986	203,154	209,772	218,834	209,922	192,806
Dividends received from Equity One	3,081	3,041	3,096	3,124	3,222	3,238	3,190	3,274
No. of Equity One shares owned	14,280,069	14,280,069	14,280,069	14,280,069	14,180,069	14,180,069	14,180,069	14,080,069
Percentage ownership	12.5%	12.6%	13.2%	13.9%	15.3%	15.3%	15.3%	16.3%

¹ 2011 and 2010 quarterly financial information is presented in accordance with IFRS. 2009 quarterly information is presented in accordance with GAAP prior to the IFRS transition date of January 1, 2010.

² The sum of the quarterly earnings (loss) per share for 2011 and 2010 differs from the year-to-date earnings (loss) per share due to the weighted average calculations.

EVENTS SUBSEQUENT TO QUARTER END

On November 3, 2011, the Company completed the acquisition of 1670 Bayview Avenue in Toronto, Ontario. The property is a 40,000 square foot, five-storey office building well-located within the busy retail and commercial node of Leaside on the southwest corner of Bayview Avenue and Hillsdale Avenue, just south of the major intersection of Bayview Avenue and Eglinton Avenue East. The property is less than 2 kilometers immediately south of Sunnybrook Hospital in Toronto. The property is 100% occupied and leased to a mix of tenants including a specialty outpatient clinic funded by the Government of Ontario, a bank, medical and dental practitioners, and other knowledge-based tenancies. The weighted average remaining lease term is in excess of five years. The purchase price is approximately \$12.4 million, including transaction costs, and was funded by cash and a new \$8.3 million first mortgage that matures in 2016.

The Company also announced that it entered into a binding agreement to purchase a 47,000 square foot medical office building in Kitchener, Ontario for approximately \$9.5 million to be partially funded by a new \$6.0 million first mortgage that matures in 2016. This acquisition is subject to the satisfaction of customary closing conditions, and is expected to close during the fourth quarter of 2011.

In addition, on October 6, 2011, the Company entered into an unsecured subordinated revolving credit facility agreement (the "Credit Facility") with Gazit Maple, the Company's largest shareholder. Up to \$20 million is available to be drawn by the Company under the Credit Facility and amounts drawn are expected to be used to fund pending and proposed acquisitions including the ones noted above. Amounts outstanding under the Credit Facility bear interest from time to time at the higher of 6.75% or BA rate plus 4.75%. The Credit Facility has a one-year maturity, with an option by the Company to extend for an additional one-year term on the same terms. The Company currently has drawn \$7.7 million on the Credit Facility.

RELATED PARTY TRANSACTIONS

As at September 30, 2011, Gazit-Globe, a multinational real estate company listed on the Tel Aviv Stock Exchange (TASE: GLOB) indirectly owned 73.1% of the common shares of the Company through Gazit Maple, one of its wholly-owned Canadian subsidiaries. In addition, Gazit-Globe is the principal shareholder of FCR and holds its interest in FCR through its wholly-owned Canadian subsidiaries, Gazit Canada Inc. and Gazit 2003 Inc. (collectively "Gazit Canada"), and also holds a significant stake in Equity One. Gazit Group USA Inc. ("Gazit USA") is a wholly-owned subsidiary of Gazit-Globe. ProMed Properties Inc. ("ProMed US") is a wholly-owned subsidiary of Gazit USA. Gazit-Globe, together with its consolidated subsidiaries, is referred to herein as the "Gazit Group".

ProMed Canada Agreement

Immediately prior to the spin-off transaction on August 14, 2009, the Company acquired all of the issued and outstanding common shares of ProMed Properties (CA) Inc. ("ProMed Canada") from Gazit Canada, for a net price of \$16.6 million. At that time, the assets of ProMed Canada 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 at \$4.50 each and cash of \$240,000.

Relationship Agreement

The Company and ProMed US entered into an agreement on August 14, 2009 that governs aspects of the relationship between them. Pursuant to this agreement, ProMed US 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 US that the Company will not make future investments in medical office buildings in the United States without the prior approval of ProMed US, 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 US ceases to be controlled by the Gazit Group; and (ii) no member of management of the Company is a member of management of ProMed US or on the board of directors of ProMed US.

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 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 during the first nine months of 2011 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 Gazit Canada a market-based hourly rate. For the three and nine months ended September 30, 2011, the Company charged approximately \$10,000 and \$47,000, respectively (2010 – \$15,000 and \$58,000, respectively) 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 only interest is payable 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. During the three and nine months ended September 30, 2011, interest expense incurred by the Company totalled \$0.8 million and \$2.3 million, respectively (2010 – \$0.8 million and \$2.4 million, respectively).

FCR Lease Agreement

In August 2009, Gazit Canada assigned its lease with FCR to the Company on its office space at 109 Atlantic Avenue, Toronto, ON M6K 1X4. This lease commenced on September 1, 2008 and expires on August 31, 2013. During the three and nine months ended September 30, 2011, office rent expense incurred by the Company and paid to FCR amounted to \$0.1 million and \$0.2 million, respectively (2010 – \$29,000 and \$0.1 million, respectively). At the start of the second quarter of 2011, the Company increased its space at 109 Atlantic Avenue and in connection therewith signed a lease amendment.

FCR Primary Agreement

In connection with the 50/50 joint venture acquisition of the Meadowlark Health and Shopping Centre in Edmonton, Alberta with FCR completed during the third quarter of 2011, the Company entered into an agreement to pay FCR a fee for conducting the due diligence and financing processes on behalf of the Company related to this acquisition. During the three and nine months ended September 30, 2011, the fee incurred by the Company and paid to FCR amounted to \$0.2 million and \$0.2 million, respectively. The agreement was entered into at customary arm's length commercial terms. The Company does not expect to incur any additional fees in respect of this agreement.

FCR Management Agreement

In connection with the 50/50 joint venture of the Meadowlark Health and Shopping Centre with FCR, the Company has entered into a property management agreement to pay FCR Management Services LP ("FCRMS"), a subsidiary of FCR, a property management fee for property management services rendered. For the three and nine months ended September 30, 2011, the Company incurred and paid to FCRMS \$24,000 and \$24,000, respectively. The agreement was entered into at customary arm's length commercial terms.

Gazit Maple Bridge Facility

On January 17, 2011, the Company entered into an unsecured revolving credit facility agreement (the "Bridge Facility") with Gazit Maple, the Company's principal shareholder. At the time, up to \$40.0 million was available to be drawn by the Company under the Bridge Facility and amounts drawn in the first quarter were used to fund the acquisitions during the first quarter. Amounts outstanding under the Bridge Facility bore interest based on the one month banker's acceptance rate plus 3.30% and matured on the earlier of (i) July 18, 2011 and (ii) the first banking day immediately following the date the Company completed its rights offering. As of September 30, 2011, the Bridge Facility had been repaid, and \$0.4 million of interest was incurred.

Gazit Maple Credit Facility

On October 6, 2011, the Company entered into a new Credit Facility with Gazit Maple. Up to \$20 million is available to be drawn by the Company under the Credit Facility and amounts drawn are expected to be used to fund pending and proposed acquisitions including the ones noted above. Amounts outstanding under the Credit Facility bear interest from time to time at the higher of 6.75% or BA rate plus 4.75%. The Credit Facility has a one-year maturity, with an option by the Company to extend for an additional one-year term on the same terms. The Company currently has drawn \$7.7 million on this facility.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in Note 2 to the First Quarter Report 2011 Consolidated Financial Statements, and are consistently applied in the current reporting period.

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:

- Fair values of investment properties; and
- Valuation of financial instruments both for disclosure and measurement purposes.

Fair values of investment properties

Under IFRS, management's policy is to record investment properties at fair value at the balance sheet date based on available market data. Fair value is assessed by independent appraisers on each property acquired in the year and select properties from the Company's existing portfolio. Investment properties are fair valued internally by the Company during the interim.

Appraisers and management use estimates and judgments including the following:

- Capitalization rates.
- Terminal capitalization rates.
- Discount rates.
- Occupancy rates.
- Rental rates.
- Tenant improvement and leasing costs.

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

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.

Income taxes

The Company exercises judgment in estimating deferred 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 deferred income taxes.

Prior period restatement of Equity One, Inc.

In November 2011, Equity One reported an error in the amount of a non-cash gain on bargain purchase recognized in net income for the three months ended March 31, 2011 and the six months ended June 30, 2011 and indicated it would be preparing and filing with the United States Securities and Exchange Commission restated financial statements for those periods. This non-cash gain arose from the accounting of Equity One's acquisition in January 2011 of Capital and Counties USA, Inc. ("CapCo") through a joint venture formed with CapCo's then parent company, Liberty International Holdings Limited. In connection with the acquisition, Equity One recorded a non-cash gain on bargain purchase in the aggregate of US\$53.5 million, representing the amount by which the fair value of the net assets acquired exceeded the fair value of the consideration transferred. Based on additional analysis of the accounting rules applicable to fair value computations and in consultation with its valuation advisors, Equity One determined that the US\$53.5 million gain on bargain purchase should have been reduced by a total of US\$26.4 million. The above error did not have an impact on Equity One's cash position, nor did it have a net impact on its financial position for any period.

Equity One's error did not have an impact on Gazit America's financial position or net income as at and for the six months ended June 30, 2011. Further, as the error did not impact Equity One's cash position, its dividend was not impacted. The following table summarizes the impact of the error in Equity One's financial statements noted above on Gazit America's statement of earnings for the three months ended March 31, 2011 and the six months ended June 30, 2011:

Consolidated Statement of Earnings (Loss)

	<i>Three months ended March 31, 2011</i>		
	<i>Previously reported</i>	<i>Adjustment</i>	<i>Restated</i>
<i>(Thousands of dollars, except per share amounts)</i>			
Equity income from Equity One, Inc.	\$7,273	(\$1,952)	\$5,321
Income tax expense	\$76	-	\$76
Net income	\$4,392	(\$1,952)	\$2,440
Basic earnings per share	\$0.28	(\$0.12)	\$0.16
Diluted earnings per share	\$0.28	(\$0.12)	\$0.16

	<i>Six months ended June 30, 2011</i>		
	<i>Previously reported</i>	<i>Adjustment</i>	<i>Restated</i>
Equity income from Equity One, Inc.	\$10,324	(\$1,952)	\$8,372
Fair value gain on investment in Equity One, Inc.	\$31,156	\$2,980	\$34,136
Income tax expense	\$10,988	\$1,028	\$12,016
Net income	\$26,530	-	\$26,530
Basic earnings per share	\$1.51	-	\$1.51
Diluted earnings per share	\$1.49	-	\$1.49

SUMMARY OF CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

The Company adopted IFRS as the basis of financial reporting effective for the first quarter 2011 with restatement of comparative periods, using a transition date of January 1, 2010. The impact of the adoption of IFRS on financial position and results of operations is discussed in the following section. The significant accounting policies are included in Note 2 to the First Quarter 2011 Report. Note 3 to these unaudited condensed consolidated interim financial statements includes a reconciliation of equity, net income and comprehensive income as reported under GAAP and IFRS as at and for the three and nine months ended September 30, 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of Adoption of IFRS

IFRS are premised on a conceptual framework similar to Canadian generally accepted accounting principles ("GAAP"), although significant differences exist in certain aspects of recognition, measurement, and disclosure. The adoption of IFRS has a material impact on the consolidated balance sheets and statements of income, though reported net cash flows remained unaffected. Most significantly, the opening IFRS balance sheet as at January 1, 2010 reflects the revaluation of all of our rental properties to fair value and, as a result, the intangible assets and liabilities are no longer separately recognized. In addition, the Company's investment in Equity One reflects the Company's proportionate share of the impact of the adoption of IFRS by Equity One, most significantly related to the fair value of its investment properties. Further, such changes to the opening balance sheet required a corresponding tax adjustment to be recorded based on the resultant differences.

IFRS 1: First-time Adoption of IFRS

The adoption of IFRS required the application of IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 requires certain mandatory exemptions and allows for some optional exemptions. The following are the optional exemptions available under IFRS 1 which the Company applied in preparation of its first condensed consolidated financial statements under IFRS:

(i) Business combinations

The Company has elected not to apply IFRS 3, "Business Combinations" retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date, January 1, 2010.

(ii) Cumulative translation amount

The Company has elected to set the previously accumulated cumulative translation account, which is included in accumulated other comprehensive income, to zero at January 1, 2010 by adjusting the cumulative amounts through opening retained earnings.

IFRS 1 allows for certain other optional exemptions, however such exemptions were deemed not to be significant to the Company's adoption of IFRS.

The following discussion has been prepared using the standards and guidance currently issued and expected to be effective at the end of the Company's first annual IFRS reporting period, which will be December 31, 2011.

Impact of IFRS on Results of Operations

The following discussion quantifies and describes the impact of significant differences between GAAP and IFRS on the consolidated statement of operations:

Fair value changes

As a result of the Company's policy to use fair value to account for investment properties, net income during any reporting period may be greater than or less than net income determined under GAAP depending on whether the fair values of the investment properties increased or decreased during the period. The impact of fair value changes resulted in a decrease to net income in 2010 of approximately \$0.5 million on an annualized basis (nine months ended September 30, 2010 – decrease of \$0.9 million) resulting from capital and leasing related expenditures.

Equity income

As a result of the IFRS adjustments calculated by Equity One in connection with its operations, net income under IFRS during any given period may be greater than or less than net income under GAAP depending on whether the Equity One IFRS adjustments resulted in more or less income for Equity One. The impact of the IFRS adjustments at Equity One on equity income for the Company resulted in an increase to income of approximately \$1.6 million in 2010 on an annualized basis (nine months ended September 30, 2010 – increase of \$0.7 million).

Dilution gain

As a result of the equity accounting method, the Company records a dilution gain or loss when Equity One issues shares in which the Company does not participate at a level required to maintain its ownership interest. This dilution gain or loss is based on the Company carrying value of the investment, which has increased as compared to GAAP. The impact of this difference resulted in a decrease in net income of \$9.8 million in 2010 on an annualized basis (nine months ended September 30, 2010 – decrease of \$4.6 million).

Amortization expense

Under the fair value model for accounting of investment properties, depreciation is no longer recorded. In addition, intangible asset and liability balances previously established under GAAP in connection with past business combinations or asset acquisitions are no longer separately recognized and, accordingly, no longer amortized under IFRS. The impact of not amortizing historic intangible balances along with no longer depreciating investment properties resulted in a net increase to net income of approximately \$1.3 million in 2010 on an annualized basis (nine months ended September 30, 2010 – net increase of \$1.0 million).

Revenue recognition

As the Company no longer separately accounts for intangible assets and liabilities relating to above- and below-market tenant leases in connection with properties acquired, the related amortization of these balances to rental revenue is eliminated under IFRS. This difference resulted in a reduction of rental revenue of approximately \$40,000 in 2010 on an annualized basis (nine months ended September 30, 2010 – reduction of \$30,000).

Income taxes

The Company has recorded the tax effect of the above noted differences, which resulted in a net increase in net income of \$3.2 million in 2010 on an annualized basis (nine months ended September 30, 2010 – net increase of \$2.2 million) largely as a result of the decreased dilution gain in respect of equity accounting for the investment in Equity One.

CONTROLS AND PROCEDURES

Disclosure Control Procedures

The Company did not make any changes to the Company's disclosure controls and procedures (as defined in National Instrument 52-109) during the quarter ended September 30, 2011 that have materially affected, or that are reasonably likely to materially affect, the Company's disclosure of new information.

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 IFRS. The Company did not make any changes to the Company's internal control over financial reporting during the quarter ending September 30, 2011 that have materially affected, or that are reasonably likely to materially affect the Company's internal control over financial reporting. The Company's major shareholder, Gazit-Globe, has been reporting under IFRS since 2006. As a result of this, the significant controls required for reporting under IFRS have been in place at the Company since its inception.

Management is continuously assessing and, where possible, improving procedures and controls related to financial reporting and disclosure for future periods. The condensed consolidated 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 Relating to the Company

General Economic Conditions

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 its investments. Adverse local, regional or worldwide economic trends that affect each respective economy could have a material adverse effect on the Company's financial condition and results of operations. Its 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 the Company has 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 it operates or the countries or regions in which the businesses underlying our investments operate or both.

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), changes 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 favourable 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 carrying value of such properties.

The Company uses third party managers to manage the day to day operations of its properties. There can be no assurance that such third party managers will act in a diligent, careful and vigilant manner or manage the properties in the Company's best interest. While the Company uses agreements to ensure its third party property managers act in accordance with industry standards, the failure of them to do so could lead to, among other things, a loss of tenants at its properties which could have an adverse impact on the Company. In addition, if these third parties should resign or cease for whatever reason to be the Company's property managers, the Company and its operations may be adversely affected, in the short term.

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.

Risks of Investments in Securities

The Company holds a significant equity investment in Equity One and may, from time to time, hold 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. Such market volatility could also have an adverse effect on the Company's outstanding indebtedness.

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 participates 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

A significant portion of the Company's assets are denominated in U.S. dollars. Accordingly, 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 will be sufficient to protect against currency exchange rate losses.

Dividends and Distributions from Investments in Securities

The Company generates a large portion of its cash flow from dividends from Equity One. There can be no assurance that current distribution levels will be maintained by Equity One or other real estate entities in which the Company invests. In the event that Equity One was to reduce its dividend level, it could have a material impact on the Company's cash flows.

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 September 30, 2011, the Company had approximately \$230.6 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 or other securities. Also, a disruption in the capital markets could have an adverse impact on the Company's ability to refinance and 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.

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.

Loss of Key Personnel

The Company depends 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 employees or a key member 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.

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

The Company plans to acquire prudently certain businesses and properties, or interests therein, in order to expand its operations. As a result, the Company 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 the Company in connection with any sale, certain of the indemnification obligations are likely to be limited in duration and amount. In addition, even if the Company 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. The Company also may not successfully integrate an acquired business into its current operations or realize any of the anticipated benefits of its acquisition and accordingly the Company's results of operations and financial condition could be adversely affected.

Furthermore, the Company's acquisition strategy is dependent to a significant extent on the ability of management to identify acquisition opportunities that are suitable for the Company. The Company expects that it will face competition for acquisitions primarily from investment funds, operating companies acting as strategic buyers, other real estate companies, 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 the Company. 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 the Company will need to compete for equity capital from institutional investors and other equity providers and its 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 the Company's 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 the Company 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 effect 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.

There can be no assurance that the competitive pressures that the Company will face will not have a material adverse effect on its business, financial condition and results of operations or that management of the Company will be able to identify acquisitions that are consistent with its objectives or that generate attractive returns for its shareholders. The Company may lose acquisition opportunities in the future if it does not match prices, structures and terms offered by competitors or if it is unable to access sources of equity or obtain indebtedness at attractive rates. Alternatively, the Company may experience decreased rates of return and increased risks of loss if it matches 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 the Company's business, results of operations or financial condition: potential disruption of its 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 it has 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 and Redevelopment Properties

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 provinces.

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 the Company's property manager 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.

Governmental Regulation and Environmental Matters

The Company and its 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.

The Company maintains comprehensive environmental insurance and conducts environmental due diligence upon the acquisition of new properties. There is, however, a risk that the value of any given property in the Company's portfolio could be adversely impacted as a result of unforeseen environmental matters or changes in governmental regulations.

Under various federal, provincial and local laws, the Company, as an owner, and potentially as a person in control of or managing real property, could potentially become liable for costs of investigation, remediation and monitoring of certain contaminants, hazardous or toxic substances present at or released from its properties or disposed of at other locations. The failure to remediate such substances, if any, may adversely affect the ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims, including proceedings by government regulators or third party lawsuits. Environmental legislation can change rapidly and the Company may become subject to more stringent environmental laws in the future, and compliance with more stringent environmental laws, or increased enforcement of same, could have a material adverse effect on its business, financial condition or results of operation.

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 Shareholder

Gazit-Globe, a multinational real estate company listed on the Tel Aviv Stock Exchange indirectly owned 73.1% of the common shares of the Company and approximately 79.1% of the Company's outstanding warrants as at September 30, 2011 through Gazit Maple, one of its wholly-owned Canadian subsidiaries.

The market price of the common shares could decline materially if Gazit-Globe sells some or all of their securities of the Company or is perceived by the market as intending to sell such securities. In addition, so long as Gazit-Globe 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 which requires the approval of a either a simple or two-thirds majority of shareholders voting at the meeting, including, among other things, the election of the Board of Directors. Gazit-Globe 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, which in turn may affect the market price of the common shares.

Moreover, on June 30, 2011, Gazit Maple announced that it had entered into agreements with a third party financial institution and its lending affiliate (the "Lenders") pursuant to which it (i) guaranteed in favour of the Lenders the obligations of Gazit-Globe under (a) a revolving credit facility made available to Gazit-Globe by one of the Lenders, and (b) a guarantee by Gazit-Globe of the obligations of another wholly-owned subsidiary of Gazit-Globe under a

revolving credit facility made available to such subsidiary by the other Lender, (collectively, the "Gazit Group Credit Facilities") and (ii) pledged all of the common shares and 8,270,193 warrants of the Company owned by Gazit Maple (the "Pledges") to the Lenders as collateral to secure Gazit Maple's guarantee (the "Guarantee"). The obligations under the Gazit Group Credit Facilities guaranteed and secured by the Guarantee and the Pledges have a term ending on April 17, 2016.

While the Company has not been provided with a copy of the Guarantee, the Pledges or the Gazit Group Credit Facilities, it has been advised by Gazit-Globe that if Gazit-Globe or its subsidiary defaults on any of their obligations under the Gazit Group Credit Facilities or Gazit Maple defaults under the Pledges, the Lenders may have certain rights over the pledged common shares, including without limitation, the right to sell the pledged common shares in one or more public or private sales. Any such event could cause the Company's common share price (and the price of other securities convertible into common shares, including warrants) to decline materially. Many of the occurrences that could result in a default under the Gazit Group Credit Facilities and, among other things, foreclosure of the pledged common shares are out of the Company's control and are unrelated to its operations. In addition, because a significant number of common shares of the Company are pledged to secure the obligations under the Gazit Group Credit Facilities, the occurrence of an event of default could result in a sale of such pledged common shares that would trigger a change of control of the Company, even when such a change may not be in the best interests of the shareholders of the Company or may contravene certain provisions of the Company's term loans and credit facilities, or those of its subsidiaries, which may have a material adverse effect on the Company. In the case of the Company's term loans and credit facilities, or those of its subsidiaries, a change of control may be an event of default thereunder.

The foregoing information concerning Gazit-Globe and its subsidiaries has been provided by Gazit-Globe or obtained by the Company from publicly available information and has not been independently verified. There can be no assurance that such information is complete, and as such there may be additional relevant information not included in the foregoing.

Risks Relating to Taxation

General

The Company's structure, including the structure of its future operating entities, is and will be based on prevailing taxation law and practice in the local jurisdictions in which it operates. 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 shareholders in the future. Furthermore, the manner in which the Company seeks to structure acquisitions is dependent on the tax legislation and practice applicable at that time in the relevant jurisdiction. This may mean that the Company finds 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 the Company 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.