



GAZIT AMERICA INC.

Consolidated Financial Statements

June 30, 2011

GAZIT AMERICA INC.**Consolidated Balance Sheets***(thousands of dollars)**(unaudited)*

	June 30 2011	December 31 2010
ASSETS		
<i>Non-current assets</i>		
Investment properties (note 4)	\$107,095	\$30,541
Investment in Equity One, Inc. (note 6)	256,731	203,154
Other non-current assets (note 7)	1,096	863
	<u>364,922</u>	<u>234,558</u>
<i>Current assets</i>		
Cash	25,541	9,145
Other current assets (note 8)	12,489	9,875
	<u>38,030</u>	<u>19,020</u>
	<u>\$402,952</u>	<u>\$253,578</u>
LIABILITIES		
<i>Non-current liabilities</i>		
Mortgages, credit facilities and term loans (note 9)	\$150,530	\$112,189
Advances from affiliated entities (note 10)	35,186	35,793
Other non-current liabilities (note 11)	1,708	1,035
Deferred income tax liability (note 13)	46,764	11,466
	<u>234,188</u>	<u>160,483</u>
<i>Current liabilities</i>		
Mortgages, credit facilities and term loans (note 9)	9,715	6,689
Advances from affiliated entities (note 10)	258	1,099
Accounts payable and other liabilities (note 12)	3,905	2,706
	<u>13,878</u>	<u>10,494</u>
SHAREHOLDERS' EQUITY	<u>154,886</u>	<u>82,601</u>
	<u>\$402,952</u>	<u>\$253,578</u>

See accompanying notes to the interim consolidated financial statements.

APPROVED BY THE BOARD OF DIRECTORS:

(signed) "Dori J. Segal"
Chairman of the Board

(signed) "Gail C. Mifsud"
Director

GAZIT AMERICA INC.**Consolidated Statements of Earnings (Loss)***(thousands of dollars, except per share amounts)**(unaudited)*

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2011	2010	2011	2010
REVENUE				
Rental revenue (note 16)	\$3,500	\$1,103	\$5,824	\$1,872
Property operating expenses	1,638	522	2,811	975
Net operating income	1,862	581	3,013	897
EXPENSES				
Interest expense (note 17)	2,851	2,275	5,264	4,534
General and administrative expenses	2,009	1,233	3,417	2,337
	4,860	3,508	8,681	6,871
Equity income from Equity One, Inc. (note 6)	3,051	2,484	10,324	4,573
Dilution gain (loss) on investment in Equity One, Inc. (note 6)	1,885	(6)	223	(112)
Interest and other income	24	35	218	36
	4,960	2,513	10,765	4,497
Income (loss) before the undernoted	1,962	(414)	5,097	(1,477)
Unrealized loss on interest rate swaps and option (note 19(d) and note 10, respectively)	(950)	(1,634)	(669)	(2,244)
Fair value gain (loss) on investment properties	691	(22)	821	(682)
Fair value gain on investment in Equity One, Inc. (note 6)	31,156	-	31,156	-
Unrealized gain (loss) on foreign exchange	191	(1,715)	1,113	(467)
Income (loss) before income taxes	33,050	(3,785)	37,518	(4,870)
Income taxes (note 13)				
Current period expense	110	443	368	786
Deferred tax expense (recovery)	10,802	(648)	10,620	(1,132)
	10,912	(205)	10,988	(346)
Net income (loss)	\$22,138	(\$3,580)	\$26,530	(\$4,524)
Earnings (loss) per common share, basic (note 15)	\$1.13	(\$0.28)	\$1.51	(\$0.35)
Earnings (loss) per common share, diluted (note 15)	\$1.12	(\$0.28)	\$1.49	(\$0.35)

See accompanying notes to the consolidated financial statements.

GAZIT AMERICA INC.**Consolidated Statements of Comprehensive Income (Loss)***(thousands of dollars)**(unaudited)*

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2011	2010	2011	2010
Net income (loss)	\$22,138	(\$3,580)	\$26,530	(\$4,524)
Other comprehensive (loss) income				
Foreign currency translation	2,581	1,586	5,437	(6,729)
Cumulative foreign currency translation				
- Investment in Equity One, Inc.	(2,878)	2,787	(7,821)	7,954
Other comprehensive income (loss) of Equity One, Inc. (note 6)	(1,345)	(211)	(1,121)	(430)
Unrealized gain on available for sale marketable securities	213	113	192	153
	(1,429)	4,275	(3,313)	948
Comprehensive income (loss)	\$20,709	\$695	\$23,217	(\$3,576)

See accompanying notes to the consolidated financial statements.

GAZIT AMERICA INC.

Consolidated Statements of Shareholders' Equity

(thousands of dollars, except share numbers)

(unaudited)

	Share Capital		Contributed Surplus	Options, Deferred Share Units and Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Retained Earnings and Accumulated Other Comprehensive Income (Loss)	Total
	Number	Amount						
Shareholders' equity, December 31, 2010 (note 14)	15,537,462	\$59,634	\$1,263	\$5,715	\$17,491	(\$1,502)	\$15,989	\$82,601
Net income	-	-	-	-	26,530	-	26,530	26,530
Shares and warrants issued	7,768,878	25,905	-	22,452	-	-	-	48,357
Options and DSUs issued (notes 14(c),(d))	-	-	-	707	-	-	-	707
Exercise of warrants (note 14 (e))	742	5	-	(1)	-	-	-	4
Other comprehensive loss (note 14 (b))	-	-	-	-	-	(3,313)	(3,313)	(3,313)
Shareholders' equity, June 30, 2011	23,307,082	\$85,544	\$1,263	\$28,873	\$44,021	(\$4,815)	\$39,206	\$154,886

	Share Capital		Contributed Surplus	Options, Deferred Share Units and Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Retained Earnings and Accumulated Other Comprehensive Income (Loss)	Total
	Number	Amount						
Shareholders' equity, December 31, 2009 (note 14)	12,847,877	\$51,176	\$1,263	\$ -	\$22,699	\$1,725	\$24,424	\$76,863
Net loss	-	-	-	-	(4,524)	-	(4,524)	(4,524)
Options and DSUs issued	-	-	-	587	-	-	-	587
Other comprehensive income	-	-	-	-	-	948	948	948
Shareholders' equity, June 30, 2010	12,847,877	\$51,176	\$1,263	\$587	\$18,175	\$2,673	\$20,848	\$73,874

See accompanying notes to the consolidated financial statements.

GAZIT AMERICA INC.**Consolidated Statements of Cash Flow***(thousands of dollars)**(unaudited)*

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2011	2010	2011	2010
Operating Activities				
Net income (loss)	\$22,138	(\$3,580)	\$26,530	(\$4,524)
Items not affecting cash:				
Amortization	6	2	10	4
Non-cash interest expense	21	28	(39)	75
Non-cash portion of gain on sale of marketable securities	-	-	(101)	-
Dividends received from Equity One, Inc. (note 6)	3,041	3,238	6,137	6,428
Equity income from Equity One, Inc. (note 6)	(3,051)	(2,484)	(10,324)	(4,573)
Fair value gain on investment in Equity One, Inc. (note 6)	(31,156)	-	(31,156)	-
Dilution (gain) loss on investment in Equity One, Inc. (note 6)	(1,885)	6	(223)	112
Deferred income taxes (recovery)	10,802	(648)	10,620	(1,132)
Fair value (gain) loss on investment properties	(691)	22	(821)	682
Unrealized (gain) loss on foreign exchange translation	(191)	1,715	(1,113)	467
Unrealized (gain) loss on interest rate swaps and option	950	1,634	669	2,244
Non-cash compensation expense	420	408	706	587
Net change in non-cash operating items	1,955	108	(65)	1,694
Cash provided by operating activities	2,359	449	830	2,064
Investing Activities				
Acquisition of rental properties, net of \$21.8 million mortgage (2010 - \$7.8 million) assumed and cash acquired (note 5)	-	-	(52,919)	(3,663)
Capital expenditures	(531)	(221)	(654)	(18)
Deposits on properties under option	(494)	-	1,359	-
Investment in common shares of Equity One, Inc. (note 6)	-	-	-	(1,882)
Investments in marketable securities	174	(592)	(3,918)	(1,923)
Proceeds from sale of marketable securities	-	-	611	-
Cash used in investing activities	(851)	(813)	(55,521)	(7,486)
Financing Activities				
Proceeds from issuance of common shares	25,905	-	25,905	-
Proceeds from issuance of common share warrants	22,452	-	22,452	-
Proceeds from exercise of warrants	4	-	5	-
Proceeds from mortgages	-	-	16,500	-
Proceeds from credit facilities	8,500	3,001	17,000	10,994
Repayment of mortgages, credit facilities, and term loans	(6,308)	(1,735)	(10,536)	(3,516)
Payments to affiliated entities	(32,902)	(710)	(40,043)	(1,529)
Receipts from affiliated entities	181	-	39,902	-
Cash provided by financing activities	17,832	556	71,185	5,949
Effect of currency rate movement on cash balances	(39)	193	(98)	-
Increase in cash	19,301	385	16,396	527
Cash, beginning of period	6,240	4,033	9,145	3,891
Cash, end of period	\$25,541	\$4,418	\$25,541	\$4,418
SUPPLEMENTARY INFORMATION				
Income taxes paid	-	-	-	\$22
Interest paid	\$2,729	\$4,198	\$5,324	\$5,283

See accompanying notes to the consolidated financial statements.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

1. ORGANIZATION

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

Gazit-Globe Ltd. ("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 as at June 30, 2011 through Gazit Maple Inc. ("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 Inc. ("Equity One").

On July 17, 2009, FCR declared a special dividend to its shareholders to distribute the common shares of its holdings in the Company on a pro rata basis to its shareholders (the "spin-off" transaction). The record date for this special dividend was July 28, 2009 and the payment date was August 14, 2009. The common shares of the Company were divided so that holders of FCR common shares received one share of the Company for every 10 FCR common shares that they held as of the record date. A total of 9,212,413 shares of the Company were distributed as a dividend-in-kind. Following completion of the dividend-in-kind and the acquisition of ProMed Properties (CA) Inc., the Company had 12,847,877 common shares issued and outstanding. Upon completion of the spin-off on August 14, 2009, the Company became a separate publicly listed company in Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011.

As these condensed consolidated financial statements are prepared using International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been included in the consolidated financial statements as at and for the three months ended March 31, 2011 for the comparative annual period.

These condensed consolidated financial statements should be read in conjunction with the Company's 2010 Canadian GAAP annual financial statements, the consolidated financial statements as at and for three months ended March 31, 2011 and in consideration of the IFRS transition disclosures included in Note 3 to these condensed consolidated financial statements and the additional annual disclosures included herein. The accounting policies used in the preparation of these condensed consolidated financial statements are the same as those described in the consolidated financial statements as at and for the three months ended March 31, 2011 and were consistently applied during the second quarter.

These condensed consolidated financial statements were authorized for issuance by the Board of Directors ("Board") of the Company on August 12, 2011.

3. TRANSITION TO IFRS

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. The Company's transition date is January 1, 2010 and the Company has prepared its opening IFRS balance sheet at that date. The Company will

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

ultimately prepare its opening IFRS balance sheet by applying existing IFRS in effect at December 31, 2011. Accordingly, the opening IFRS balance sheet and the December 31, 2010 comparative balance sheet presented in the consolidated financial statements for the year ending December 31, 2011 may differ from those presented in the interim.

(a) Elected exemptions from full retrospective application

In preparing these condensed consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

(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.

(b) Mandatory exceptions to retrospective application

In preparing these condensed consolidated financial statements in accordance with IFRS 1, the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

(i) Hedge accounting

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date, based on IAS 39 criteria, are reflected as hedges in the Company's results under IFRS, otherwise they are recorded as non-hedging derivative financial instruments.

(ii) Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

(c) Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at June 30, 2010:

<i>(thousands of dollars)</i>	Note	Share Capital	Contributed Surplus	Options, Deferred Share Units and Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Retained Earnings and Accumulated Other Comprehensive Income (Loss)	Total
Canadian GAAP - Jun. 30, 2010		\$51,176	\$1,263	\$554	\$18,534	(\$17,845)	\$689	\$53,682
Adjustments increase (decrease):								
Investment property	(i)	-	-	-	(619)	-	(619)	(619)
Investment in associate	(ii)	-	-	-	20,285	1,356	21,641	21,641
Hedge accounting	(iii)	-	-	-	(1,705)	1,705	-	-
Share-based compensation	(iv)	-	-	33	(33)	-	(33)	-
Deferred taxes	(v)	-	-	-	21	-	21	21
Cumulative translation amount	(vi)	-	-	-	(18,308)	17,457	(851)	(851)
Under IFRS - Jun. 30, 2010		\$51,176	\$1,263	\$587	\$18,175	\$2,673	\$20,848	\$73,874

(i) Investment property

The Company considers its properties to be investment properties under IAS 40, "Investment Property" ("IAS 40"). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in production or for sale in the ordinary course of business. Investment property is initially recorded at cost under IAS 40. Subsequent to initial recognition, the Company must choose either the cost method or the fair value method to account for investment property. The Company has elected to use the fair value method.

This adjustment to retained earnings represents the cumulative unrealized gain in respect of the Company's investment property, net of de-recognition of related intangible assets and liabilities which are inherently reflected in the fair value, and the reclassification of straight-line rent receivable and deferred initial direct leasing costs.

(ii) Investment in associate

As at June 30, 2010, the investment in Equity One was classified as an investment in associate under IAS 28, "Investments in Associates" ("IAS 28"). Under IAS 28, associates are presented using the equity method of accounting, similar to Canadian GAAP. Under the equity method, the investment in associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

This adjustment to retained earnings in connection with the Company's investment in Equity One reflects the cumulative change in Equity One's equity as a result of adopting IFRS. The most significant impact to Equity One's equity relates to the fair value adjustment in connection with its policy under IAS 40 to present investment property under the fair value method, consistent with the policy of the Company.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

(iii) Hedge accounting

The Company evaluated its interest rate swaps for effectiveness and it was determined that the swaps do not satisfy the requirements for hedge accounting under IFRS. This adjustment to retained earnings reflects the accumulated other comprehensive income related to the interest rate swaps.

(iv) Share-based compensation

The increase in equity in connection to share-based compensation is the result of stock option awards made prior to the approval of the option plan by the shareholders, but after the approval by the Board. Upon approval by the shareholders, the Company re-measured the fair value of the options, which resulted in an increase to stock compensation expense.

(v) Deferred taxes

The deferred tax liability under IFRS is determined by applying the tax rate to temporary differences that are consistent with the Company's expectation that the method of realizing those differences will be through operating its properties rather than through sale.

The decrease in deferred tax liabilities primarily relates to the dilution adjustment recorded in connection with the investment in Equity One in the first half of 2010.

(vi) Cumulative translation amount

The Company elected to set the cumulative translation amount of \$18.3 million under Canadian GAAP to nil upon transition to IFRS. This has been reflected as a reclassification between accumulated other comprehensive income ("AOCI") and retained earnings, and therefore does not affect total reported equity.

The Company has recorded cumulative translation losses of \$0.9 million at June 30, 2010 from translating the assets and liabilities of foreign subsidiaries, as measured under IFRS, to Canadian dollars.

(d) Reconciliation of net income as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the three and six months ended June 30, 2010:

<i>(thousands of dollars)</i>	Note	Three months ended Jun. 30, 2010	Six months ended Jun. 30, 2010
Net loss under Canadian GAAP		(\$4,440)	(\$3,051)
Adjustments increase (decrease) income:			
Investment property	(i)	321	(77)
Investment in associate	(ii)	654	(1,561)
Hedge accounting	(iii)	(33)	100
Share-based compensation	(iv)	(34)	(33)
Deferred taxes	(v)	(48)	98
Net loss under IFRS		(\$3,580)	(\$4,524)

(i) Investment property

In accordance with the Company's policy under IFRS to measure investment property at fair value, the changes in fair value are recorded in income during the period in which they arise. Under Canadian GAAP, rental property was recorded at cost and depreciated over its useful life into income. In addition, the amortization of intangible assets and liabilities recognized upon acquisition of investment property was amortized to income or revenue

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

under Canadian GAAP, which is no longer the case under IFRS, as the values of intangible assets and intangible liabilities are captured in the fair value of investment property.

(ii) Investment in associate

As described in note 3(c)(ii), under the equity method of accounting for investments in associates, the Company records as income its share of the profit or loss of Equity One, along with other changes in the Company's interest in Equity One that may impact income. The adjustment to income represents the Company's portion of the incremental income or loss recorded by Equity One in connection with the difference in its IFRS net income, along with the difference in dilution gains resulting from the issuance of shares by Equity One during the period.

(iii) Hedge accounting

As described in note 3(c)(iii), the adjustment reflects the recognition of the change in fair market value of the interest rate swaps through income rather than through other comprehensive income ("OCI").

(iv) Share-based compensation

As described in note 3(c)(iv), the adjustment represents the re-measurement of the share-based compensation expense resulting from awarding of stock options prior to shareholder approval.

(v) Deferred taxes

The adjustment to deferred taxes reflects the change in temporary differences resulting from the impact of the above differences between IFRS and Canadian GAAP.

(e) Reconciliation of comprehensive income (loss) as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the three and six months ended June 30, 2010:

<i>(thousands of dollars)</i>	Note	Three months ended Jun. 30, 2010	Six months ended Jun. 30, 2010
Comprehensive loss under Canadian GAAP		(\$1,072)	(\$790)
Adjustments increase (decrease) comprehensive income:			
Differences in net income	(i)	860	(1,473)
Foreign currency translation	(ii)	1,128	(852)
Hedge accounting	(iii)	(66)	(199)
Other		(155)	(262)
Comprehensive income (loss) under IFRS		\$695	(\$3,576)

(i) Differences in net income

Reflects the differences in net income under Canadian GAAP and IFRS as described in note 3(d) for the respective periods.

(ii) Foreign currency translation

Reflects the foreign currency exchange impact of IFRS adjustments during the respective periods.

(iii) Hedge accounting

Reflects the recognition of the change in the fair market value of the interest rate swaps through income rather than through OCI, as described in note 3(d)(iii).

(f) Changes to the cash flow statement

There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

4. INVESTMENT PROPERTIES

	Jun. 30 2011	Dec. 31 2010
<i>(thousands of dollars)</i>		
Balance at beginning of period	\$30,541	\$16,600
Additions		
Property acquisitions (note 5)	75,341	13,969
Tenant and other capital expenditure	392	487
Fair value gains (losses)	821	(515)
	\$107,095	\$30,541

The Company has appraisals from external valuers for the properties acquired in the year, with an aggregate fair value of \$62.0 million as at June 30, 2011. For the quarter ended June 30, 2011, internal valuations were prepared by the Company for the entire portfolio using assumptions substantially consistent with those used by the external valuers, including capitalization and discount rates. During the year ended December 31, 2010, an external valuation was prepared on the property acquired in the year. In completing its internal appraisals for the remaining portfolio, the Company used capitalization and discount rates obtained from external appraisers for comparable properties in the same markets and, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet dates, less future cash outflow in respect of such leases. Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows.

The significant valuation assumptions for investment properties are outlined in the table below:

	Maximum	Minimum
June 30, 2011		
Discount rate	8.75%	7.75%
Terminal cap rate	8.25%	6.75%
<i>December 31, 2010</i>		
Discount rate	8.75%	8.00%
Terminal cap rate	8.00%	7.50%

Valuations are most sensitive to changes in discount rate. A 25 basis point increase in discount rate would decrease the fair value of investment properties by an aggregate of \$2.0 million.

Included in investment properties is \$37,000 (December 31, 2010 – \$12,000) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17, "Leases".

Investment properties with a fair value of \$107.1 million (December 31, 2010 – \$29.9 million) are pledged as security for debt (note 9).

5. ACQUISITIONS

During the six months ended June 30, 2011, the Company acquired five properties totaling 357,000 square feet for an aggregate purchase price of \$75.3 million (excluding working capital of \$0.7 million), or \$52.8 million net of assumed financing with a fair value of \$21.9 million, in Montreal and Longueuil, Quebec and London, Mississauga and Ottawa, Ontario. There were no properties purchased in the second quarter of 2011. The existing strategic management function

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

and associated significant processes were replaced by the Company's own managerial function upon acquisition, and as such, the Company considers these transactions as asset acquisitions rather than business combinations.

The fair value of the identifiable assets and liabilities of the above noted properties as at the date of acquisition were as follows:

<i>thousands of dollars</i>	Fair value recognized on acquisition
Investment properties	\$75,341
Working capital	(673)
	74,668
Mortgage payable at fair market value	21,878
	21,878
Total identifiable net assets at fair value	\$52,790

Transaction costs of \$1.9 million incurred in connection with the acquisitions have been capitalized to investment properties.

After the closing of the purchases of the Longueuil and Mississauga properties, the Company mortgaged the properties for \$9.5 million and \$7.0 million, respectively (note 9).

In March 2010, the Company acquired the shares of a company that owned a 49,000 square foot medical office building located in Ottawa, Ontario for \$3.4 million, net of cash acquired. The building was subject to a \$7.8 million (accounting value of \$8.1 million) first mortgage at 5.76% that matures September 2014. The purchase price of the shares was paid in cash. The existing strategic management function and associated processes were replaced by the Company's own managerial function upon acquisition, and as such, the Company considers this transaction an asset acquisition rather than a business combination. Transaction costs of \$0.2 million were capitalized to investment property.

During 2010, the Company also purchased two parcels of land adjacent to its property in London, Ontario for \$0.6 million.

6. INVESTMENT IN ASSOCIATE

Equity One is a self-administered and self-managed real estate investment trust in the United States that is listed on the New York Stock Exchange under the ticker symbol "EQY". The Company and Equity One are each indirectly controlled subsidiaries of Gazit-Globe. The Company does not have any direct or indirect interest in, or right to, Equity One's assets or revenues, nor does the Company have any direct or indirect obligations in respect of, or liability for, Equity One's expenses or obligations.

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 percentage equity interest in Equity One has declined since its original acquisition (reflecting dilution from equity offerings), and declined further in the second quarter as the Company did not participate in Equity One's public offering described below. The

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Company's ownership percentage in Equity One may decline further as the Company focuses on its core business in investment properties.

At June 30, 2011, the investment in Equity One was recorded at fair value. The impact was a reclassification of a deferred tax liability of \$24.9 million and a fair value gain on investment of \$31.2 million to record the investment at quoted market value, including the realization of the AOCI of \$1.8 million related to Equity One. After June 30, 2011, as an available-for-sale financial asset, the investment in Equity One will be recorded at fair value with gains and losses recognized in OCI. In the event of significant or prolonged declines in fair value below the fair value at June 30, 2011, the loss will be recognized in income.

The following table summarizes the activity of the investment in Equity One.

	Six months ended	Year ended
	Jun. 30,	Dec. 31,
<i>(thousands of dollars)</i>	2011	2010
Investment in Equity One, beginning of period	\$203,154	\$216,270
Equity income	10,324	7,372
Dividends received	(6,137)	(12,774)
Purchase of Equity One common shares	-	3,563
Other comprehensive (loss) income of Equity One	636	(601)
Dilution adjustment	654	966
Foreign exchange effect	(6,234)	(11,642)
Sub-total before reclassification of investment in Equity One	202,397	203,154
Reclassification of deferred tax liability	24,935	-
Fair value gain on investment in Equity One	29,399	-
Investment in Equity One, end of period	\$256,731	\$203,154
Fair market value of interest in Equity One ⁽¹⁾	\$256,731	\$258,209
Ownership interest in Equity One, end of period	12.6%	13.9%

⁽¹⁾ Fair market value based on quoted market price at close.

On May 23, 2010, Equity One entered into an agreement to acquire Capital and Counties USA Inc. through a joint venture with its parent company, Capital Shopping Centres Group PLC ("Capital Shopping Centres"). In the transaction, Capital Shopping Centres would receive 4.1 million shares of Equity One common stock and 11.0 million joint venture units. On January 4, 2011, this transaction closed and Equity One issued the 4.1 million shares to Capital Shopping Centres.

In addition, on May 24, 2011, Equity One announced that it issued and sold 5.0 million shares of its common stock in a public offering at a price to the public of US\$19.42 per share. In addition, MGN (USA) Inc., an affiliated entity to Gazit-Globe, which is Equity One's largest shareholder, purchased directly from Equity One an additional 1.0 million shares of common stock in a private placement transaction consummated simultaneously with the closing of the public offering. This resulted in approximately US\$115.4 million of net proceeds before expenses.

The combination of the issuances above resulted in an increase in the number of Equity One's common shares outstanding from 102.3 million as at December 31, 2010 to 112.6 million as at June 30, 2011. Following these transactions, the Company's proportionate ownership interest in Equity One decreased from 13.9% at December 31, 2010 to 12.6% at June 30, 2011. As a result, the Company has recorded a dilution gain of \$0.6 million before tax (\$0.4 million, net of tax) in its investment in Equity One, offset by a reclassification adjustment of realized losses from OCI in the amount of \$0.4 million for a net pre-tax dilution gain of \$0.2 million.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Details of the share price and shares outstanding of Equity One are as follows:

	Jun. 30, 2011	Dec. 31, 2010
Equity One share price	US\$18.64	US\$18.18
Book value per share of investment in Equity One		
In US dollars	US\$18.64	US\$14.30
In Canadian dollars	\$17.98	\$14.23
Equity One shares outstanding ⁽¹⁾	113,757,720	102,588,687
Shares owned by the Company	14,280,069	14,280,069
Percentage ownership	12.6%	13.9%

⁽¹⁾ Includes restricted shares with voting and participation rights.

7. OTHER NON-CURRENT ASSETS

The Company's other non-current assets consist of the following:

<i>(thousands of dollars)</i>	Jun. 30, 2011	Dec. 31, 2010
Option on affiliate advance (note 10)	\$497	\$753
Fixtures, equipment and computers, net	278	25
Other non-current assets	321	85
	\$1,096	\$863

8. OTHER CURRENT ASSETS

The Company's other current assets consist of the following:

<i>(thousands of dollars)</i>	Jun. 30, 2011	Dec. 31, 2010
Trade and other receivables	\$643	\$339
Investment in marketable securities	7,469	3,797
Deposits and costs of properties		
under option	942	2,493
Prepaid expenses	978	418
Income tax recoverable	2,016	2,440
Other current assets	441	388
	\$12,489	\$9,875

Due to their short-term nature, the carrying amounts of the above other current assets are a reasonable approximation to their fair value. Any longer term other assets, falling due after one year, are included in other non-current assets. Deposits are amounts paid in connection with prospective properties for acquisition which, upon closing, are applied to the property purchase price, or returned to the Company if the prospective acquisition is unsuccessful. Prepaid expenses primarily comprise of prepayments of property insurance and realty taxes which will be charged to expense in future periods as such costs are incurred.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

9. MORTGAGES, CREDIT FACILITIES AND TERM LOANS

The Company's mortgages, credit facilities and term loans consist of the following:

<i>(thousands of dollars)</i>	Due Date	Weighted Average Interest Rate ¹	Jun. 30, 2011	Weighted Average Interest Rate ¹	Dec. 31, 2010
Fixed rate mortgages	Sep. 2014 - Jan. 2021	5.28%	\$46,830	5.78%	\$8,911
Secured revolving C\$13.6 million credit facility					
Floating rate	May. 2012	4.25%	8,500		-
Total Canadian dollar denominated			55,330		8,911
Secured term loans					
Floating rate hedged with interest rate swaps	Jan. 2013	5.62%	48,225	5.62%	49,730
Floating rate	Jan. 2013	3.66%	27,778	3.11%	30,136
Floating rate			-	2.04%	7,634
			76,003		87,500
Secured revolving US\$35 million credit facility					
Floating rate	Jan. 2013	3.46%	22,284	2.81%	22,979
Secured revolving US\$8 million credit facility					
Floating rate	Apr. 2013	2.30%	7,222		-
Total US dollar denominated			105,509		110,479
Total debt outstanding			160,839		119,390
Unamortized deferred financing costs			(594)		(512)
			\$160,245		\$118,878
Current			\$9,715		\$6,689
Non-current			150,530		112,189
			\$160,245		\$118,878

¹ Includes impact of interest rate swaps.

Upon acquisition of two of the five properties purchased during the first quarter of 2011, existing mortgages of \$21.8 million were assumed (note 5). These mortgages were recorded at their fair values at the time of acquisition. Based on the terms of the mortgages and a fair market value interest rate at 4.6% and 5.3%, respectively, at the time of acquisition, the fair market value of the assumed mortgages was \$21.9 million. Upon the purchase of the shares of Nepean Medical Centre Inc. in March 2010, an existing \$7.8 million first mortgage was assumed (note 5). This mortgage was recorded at its fair market value at the time of acquisition. Based on the terms of the mortgage and a fair market value interest rate at 4.5% at the time of acquisition, the fair market value of the assumed mortgage was \$8.1 million.

During the six months ended June 30, 2011, the Company completed two new mortgage agreements totaling \$16.5 million secured by its Longueuil and Mississauga properties.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

In addition, the Company's existing Canadian dollar secured revolving credit facility was increased from \$8.5 million to \$13.6 million. As at June 30, 2011, \$8.5 million was drawn on this facility (December 31, 2010 – \$nil). The credit facility matures in May 2012.

The U.S. dollar denominated term loans and credit facilities are secured by 14,080,064 shares of Equity One. At June 30, 2011, term loans were US\$78.8 million (December 31, 2010 – US\$88.0 million) and credit facilities were US\$30.6 million (December 31, 2010 – US\$23.1 million).

On March 28, 2011, the Company completed amendments to its U.S. dollar denominated term loan and revolver agreements with its lenders. The Company is no longer required to make quarterly principal repayments.

On April 1, 2011, the Company amended the term loan maturing April 2011 to a revolving credit facility with a limit of US\$8.0 million and a maturity of April 2013.

10. ADVANCES FROM AFFILIATED ENTITIES

Advances from affiliated entities (non-current) consist of a US\$36.0 million unsecured subordinated term loan owing to FCR, as well as the premium related to the embedded derivative described below. This unsecured subordinated term loan bears interest at a fixed rate of 8.5% per annum and is interest only 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.

The Company's option to extend the loan for a further five-year period at 8.5% represents an embedded derivative for accounting purposes, which has been recorded separately. The fair value of the option as at June 30, 2011 was \$0.5 million (December 31, 2010 – \$0.8 million) and has been included in other non-current assets (note 7), with an offsetting increase in the amount due to FCR of \$0.8 million (December 31, 2010 – \$1.0 million). During the six months ended June 30, 2011, amortization of \$0.2 million of the premium was recognized in interest expense and \$0.3 million in unrealized loss on option.

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 during the first quarter were used to fund the acquisitions described in note 5. Amounts outstanding under the Bridge Facility bore interest at 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 described in note 14. On May 16, 2011, the Bridge Facility was repaid in full.

11. OTHER NON-CURRENT LIABILITIES

The Company's other non-current liabilities consist of the following:

<i>(thousands of dollars)</i>	30-Jun-11	Dec. 31, 2010
Mark-to-market hedge liabilities	\$1,270	\$881
Security deposits	438	154
	\$1,708	\$1,035

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

The Company's accounts payable and other liabilities consist of the following:

<i>(thousands of dollars)</i>	Jun 30, 2011	Dec. 31, 2010
Trade accounts payable and accruals	\$3,034	\$1,864
Accrued interest	871	842
	\$3,905	\$2,706

13. INCOME TAXES

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

The following table summarizes the provision for income taxes:

<i>(thousands of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Provision for income taxes at the combined Canadian federal and provincial income tax rate of 28.2% (2010 - 31.0%)	\$9,336	(\$1,174)	\$10,598	(\$1,510)
Increase (decrease) in the provision for income taxes due to the following items:				
Investment in Equity One, Inc.	(857)	61	(2,574)	(258)
Foreign tax rate differentials	2,126	(27)	2,424	1
Other	307	935	540	1,421
Income taxes	\$10,912	(\$205)	\$10,988	(\$346)
Comprised of:				
Current income taxes	\$110	\$443	\$368	\$786
Deferred income taxes	10,802	(648)	10,620	(1,132)
	\$10,912	(\$205)	\$10,988	(\$346)

At June 30, 2011, the Company has tax loss carry-forwards of \$9.7 million available to reduce future Canadian taxable income, which expire between December 2027 and December 2029.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

The Company's deferred income tax liability is summarized as follows:

<i>(thousands of dollars)</i>	June 30 2011	December 31 2010
Difference between carrying value and tax value of Investment in Equity One, Inc.	\$45,711	\$10,540
Other	1,053	926
	\$46,764	\$11,466

The movement for the six months ended June 30, 2011 and the year ended December 31, 2010 in the Company's net deferred income tax position is as follows:

<i>(thousands of dollars)</i>	June 30 2011	December 31 2010
Net deferred tax asset (liability)		
Balance at beginning of year	(\$11,466)	(\$9,630)
Income tax (expense) recovery recorded in income	(10,620)	(248)
Reclassification of deferred tax liability from investment in Equity One	(24,935)	-
Effects of foreign exchange translation	314	543
Liability acquired with property acquisition	-	(2,128)
Other	(57)	(3)
	(\$46,764)	(\$11,466)

14. SHAREHOLDERS' EQUITY

(a) Share capital

The Company is authorized to issue an unlimited number of common shares. The common shares carry one vote each and participate equally in the earnings of the Company and the net assets of the Company upon dissolution.

In September 2010, the Company completed a rights offering for 2,569,575 units of the Company at \$5.00 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for one common share, and expires on November 30, 2015. Concurrent with the closing of the rights offering, a private placement of units to two senior officers was completed for 120,000 units, each at a price of \$5.00 per unit. The terms of the units and warrants issued in the private placement were identical to those issued in the rights offering except that the two senior officers have agreed to hold the common shares and warrants for a period of one year from the closing date and retain at least one-half of the common shares and warrants until at least the second anniversary of the closing. At the completion of the rights offering and private placement, a total of 2,689,575 common shares and 2,689,575 warrants were issued for gross proceeds of approximately \$13.4 million, or \$12.6 million net of issue costs.

On May 16, 2011, the Company completed its previously announced rights offering in which it offered all holders of its common shares as of the record date rights to subscribe for units, each unit consisting of one common share and one common share purchase warrant. A total of 7,768,878 common shares and 7,768,878 warrants were issued pursuant to the 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 including interest, \$6.1 million was utilized to repay credit facilities, and the remainder was used for general corporate purposes.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

A total of 23,307,082 common shares and 10,457,701 warrants were outstanding as at June 30, 2011 (December 31, 2010 – 15,537,462 and 2,689,565, respectively).

(b) Accumulated other comprehensive income (loss)

As at June 30, 2011, the accumulated other comprehensive income (loss) consists of the following:

<i>(thousands of dollars)</i>	Jun. 30, 2011	Dec. 31, 2010
Foreign currency translation adjustments	(\$5,402)	(\$3,018)
Investment in Equity One, Inc.	-	1,121
Other	587	395
	(\$4,815)	(\$1,502)

(c) Share options

As at June 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, an increase of 300,000 common shares from the amount previously reserved for issuance at December 31, 2010, as approved by the shareholders at the Company's annual general meeting. This represents 5.5% of the Company's issued and outstanding common shares as at June 30, 2011. Options granted by the Company generally expire after ten years and vest over three years.

	Six months ended June 30, 2011		Six months ended June 30, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	937,500	\$6.15	-	-
Granted	106,500	\$6.75	942,500	\$6.83
Forfeited	(127,500)	\$6.48	(120,000)	\$6.75
Outstanding, end of period	916,500	\$6.17	822,500	\$6.84
Exercisable, end of period	230,000	\$6.18	-	-

In February 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 at June 30, 2011, and were granted subject to shareholder approval of the increase in the number of common shares reserved for issuance under the stock option plan noted above. During the six months ended June 30, 2011, 127,500 options with an exercise price of \$6.48 were forfeited.

Stock options outstanding and vested as at June 30, 2011 are as follows:

Exercise Price	Options Outstanding	Weighted average life remaining	Options Vested	Weighted average exercise price
\$6.00 to \$6.50	810,000	8.81	230,000	\$6.18
\$6.51 to \$7.00	106,500	9.64	-	\$0.00
	916,500	8.90	230,000	\$6.18

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

As at June 30, 2011, 376,000 common share options are available to be granted. The fair values are 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 based on anticipated employee turnover, a five to ten year term to expiry, with the 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 date. For the three and six months ended June 30, 2011, \$0.4 million and \$0.6 million, respectively (three and six months ended June 30, 2010 – \$0.2 million and \$0.4 million, respectively) was expensed in connection with the stock options that have been granted.

Following the Company's rights offering completed in May 2011, the exercise prices of the outstanding options that were granted during 2010 were adjusted by approximately 6% in accordance with the anti-dilution provision contained within the Company's Stock Option Plan. There was no income impact of this price adjustment.

(d) Deferred share units

As at June 30, 2011, a total of 175,000 common shares have been reserved for issuance under the deferred share unit ("DSU") plan (the "DSU Plan"), an increase of 75,000 common shares from the amount reserved for issuance under the DSU Plan at December 31, 2010, as approved by the shareholders at the Company annual general meeting. Directors, at their option, may elect to receive board and committee retainers and fees in the form of DSUs.

A summary of the number of DSUs granted under the Company's DSU Plan as at the current period end and prior year are shown as follows:

<i>(For the six months ended June 30)</i>	2011	2010
Outstanding, beginning of period	55,178	14,020
Granted	18,971	20,982
Outstanding, end of period	74,149	35,002

As at June 30, 2011, a total of 74,149 DSUs have been granted to directors. For the three and six months ended June 30, 2011, \$59,000 and \$0.1 million, respectively (three and six months ended June 30, 2010 – \$0.1 million and \$0.2 million, respectively) was expensed in respect of the DSUs issued.

(e) Warrants

In September 2010, 2,689,575 warrants were issued in the 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 for the anti-dilution provision from time to time. 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. In connection with the closure of the rights offering on May 16, 2011, the warrants issued in September 2010 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 these warrants was adjusted from 1 common share to 1.0656 common shares per warrant. The warrants expire on November 30, 2015. On June 30, 2011, 8,270,193 warrants of the Company beneficially owned by Gazit Maple have been pledged. During the three and six months ended June 30, 2011, 618 and 742 warrants were exercised and as at June 30, 2011, there were 10,457,701 warrants outstanding.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

(f) Restricted share units

The Company is authorized to issue 75,000 common shares under the restricted share unit (“RSU”) plan (the “RSU Plan”). Under the RSU Plan, a participant is entitled to receive one common share, or equivalent cash value, at the Company’s option, when the RSU vests. RSUs vest on December 15 of the third calendar year following the year in respect of which such RSU is granted. No RSUs have been granted as at June 30, 2011.

15. PER SHARE CALCULATIONS

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

<i>(thousands of dollars, except for share and per share)</i>	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Basic and diluted net income (loss) available to common shareholders	\$22,138	(\$3,580)	\$26,530	(\$4,524)
Weighted average shares outstanding, Basic	19,529,544	12,871,692	17,572,048	12,877,255
Dilutive effect of warrants outstanding	157,373	-	211,233	-
Weighted average diluted shares outstanding	19,686,917	12,871,692	17,783,281	12,877,255
Basic earnings (loss) per share	\$ 1.13	\$ (0.28)	\$ 1.51	\$ (0.35)
Diluted earnings (loss) per share	\$ 1.12	\$ (0.28)	\$ 1.49	\$ (0.35)

As at June 30, 2011, the Company had 916,500 (June 30, 2010 – 822,500) stock options that were outstanding and anti-dilutive, and, therefore were excluded from the computation of diluted earnings per share.

16. RENTAL REVENUE

The Company’s rental revenue consist of the following:

<i>(thousands of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Rental revenue	\$3,181	957	\$5,380	1,644
Other revenue	319	146	444	228
	\$3,500	\$1,103	\$5,824	\$1,872

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

17. INTEREST EXPENSE

The Company's interest expense consists of the following:

<i>(thousands of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Term loans	\$1,975	\$2,084	\$3,937	\$4,111
Revolving credit facilities	247	74	429	208
Mortgages	608	88	937	139
Non-cash interest expense	21	29	(39)	76
Interest expense	\$2,851	\$2,275	\$5,264	\$4,534

18. CAPITAL MANAGEMENT

The Company manages its capital, taking into account the long-term business objectives of the Company, to provide stability and reduce risk while generating an acceptable return on investment to its shareholders over the long-term. The key elements of the Company's capital management framework are approved by its Board through an annual review of the Company's strategic plan and budget, supplemented by periodic Board and Board committee meetings.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue equity, convertible debentures, conventional mortgage debt secured by investment properties and other credit facilities.

The Company's capital structure currently includes common shares, mortgages secured by investment properties, advances from affiliated entities, term loans, and revolving credit facilities, which together provide the Company with financing flexibility to meet its capital needs. Primary uses of capital include investment activities and principal repayment on its debt obligations.

<i>(thousands of dollars)</i>	June 30, 2011	December 31, 2010
Liabilities		
Mortgages	\$46,830	\$8,911
Term loans and revolving credit facilities	114,009	110,479
Advances from affiliated entities	35,452	36,892
	196,291	156,282
Shareholders' equity		
Common shares (based on closing price of \$5.90) (Dec. 31, 2010 - \$5.64)	137,512	87,631
	\$333,803	\$243,913

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Capital adequacy is monitored by the Company by assessing performance against the approved annual plan throughout the year and by monitoring compliance to debt covenants at all times. Affirmative covenants apply to the term loans and revolving credit facilities including equity to debt ratios, and certain ratios of loan to market value of the applicable pledged shares. Customary negative covenants apply to the term loans and revolving credit facilities. The Company is in compliance with all its financial covenants.

19. RISK MANAGEMENT

The Company's principal financial liabilities, other than derivatives, consist of term loans, revolving credit facilities, and mortgages. The main purpose of the Company's borrowings is to finance the acquisition and development of its property portfolio. The Company also has trade and other receivables, trade and other payables, and cash and short-term deposits that arise directly from its operations.

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. The Company's senior management oversees the management of these risks, and the Board reviews and approves policies for management of these risks, which are summarized below.

(a) Risks of foreign equity investments

The Company holds an investment in Equity One. The value of the Company's investment is subject to the risks inherent in investments in equity securities, including the risk that the financial condition of the issuer of the equity securities held by the Company may become impaired or that the general condition of the stock market may deteriorate. The investee company is also subject to risks associated with real property ownership. Common stocks are also susceptible to general stock market fluctuations with potentially volatile increases and decreases in value as market confidence in and perceptions of issuers change.

The Company's U.S. investment is self-sustaining and financed in part by U.S. dollar-denominated term loans and revolving credit facilities, which are serviced by the cash flow generated by the dividends from this investment. The Company has not traditionally fully hedged its U.S. dollar net asset position.

(b) Foreign currency risk

The Company maintains its accounts in Canadian dollars. However, a majority of its assets and liabilities are located in the United States and therefore, the Company is subject to foreign currency fluctuations which may, from time to time, impact its financial position and results. The Company's U.S. investments are financed in part by U.S. dollar denominated term loans and revolving credit facilities, which are serviced by the cash flow generated by the Company's dividends from Equity One. While the U.S. dollar financings reduce the Company's exposure to fluctuations in foreign currency exchange rates, not all of its net U.S. dollar currency risk has been hedged. As a result, a strengthening of the Canadian dollar would result in a reduction in the carrying value of the Company's net assets in the United States, and a weakening of the Canadian dollar would increase the carrying value of the net assets in the United States.

As at June 30, 2011, the Canadian dollar to United States dollar exchange rate (\$Cdn/\$US) was \$0.96 (December 31, 2010 – \$0.99). Based on six months ended June 30, 2011 operating results, every one cent change in the Canadian dollar to United States dollar exchange rate, would impact net income and/or OCI by approximately \$0.8 million or \$0.033 per share on an annualized basis, while net assets would change by approximately \$0.8 million or \$0.033 per share and cash provided by operating activities by approximately \$45,000 or \$0.002 per share on an annualized basis.

(c) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments or the failure of tenants to occupy and pay rent in accordance with existing lease agreements. The credit quality of the tenant is assessed based on substantial credit checks at the time of entering into a lease agreement. Outstanding tenant receivables are regularly monitored. The Company believes this risk is minimal.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

(d) Interest rate risk

The Company is exposed to financial risks arising from fluctuations in interest rates that could cause a variation in earnings. From time to time, the Company may enter into interest rate swap contracts or other financial instruments to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount. As at June 30, 2011, term loans are hedged by notional US\$50 million (December 31, 2010 – US\$50 million) of LIBOR swaps that mature between March 2013 and November 2016. The fair value of the Company's interest rate swaps, based on quoted values, is a negative value of approximately \$1.3 million or US\$1.3 million at June 30, 2011 (December 31, 2010 – negative \$0.9 million or US\$0.9 million).

(e) Liquidity risk

Real estate investments are relatively illiquid. Also, 64% of the Company's total assets are represented by its 12.6% investment in Equity One. The relative illiquid nature of real estate investments and also the size of the Company's investment in Equity One may tend to limit the Company's ability to sell components of its portfolio promptly in response to changing economic or investment conditions. If the Company were required to liquidate its assets quickly, there is a risk that it would realize sale proceeds of less than the current book value of its investments.

The Company's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and possible property acquisition funding requirements.

In the current economic climate, and given the relative small size of the Canadian marketplace, accessing domestic capital may become increasingly difficult. The Company mitigates liquidity risks by staggering maturity dates of its debts, renegotiating expiring credit arrangements proactively, using undrawn lines of credit and issuing equity where appropriate.

The following table summarizes the maturity profile of the Company's financial liabilities based on undiscounted contractual repayments:

<i>(thousands of dollars)</i>	Total	Remainder			Thereafter
		2011	2012-2013	2014-2015	
Mortgages					
Scheduled amortization	\$ 9,249	\$ 600	\$ 2,552	\$ 2,500	\$ 3,597
Payments on maturity	37,581	-	-	13,269	24,312
Total mortgage obligations	46,830	600	2,552	15,769	27,909
U.S. term loans	76,003	-	76,003	-	-
U.S. revolving credit facilities	29,506	-	29,506	-	-
Canadian revolving credit facility	8,500	-	8,500	-	-
Advances from affiliated entities ⁽²⁾	35,452	123	486	34,843 ⁽¹⁾	-
Total contractual obligations	\$ 196,291	\$ 723	\$ 117,047	\$ 50,612	\$ 27,909

⁽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

(f) Fair values of financial instruments

The fair values of the Company's net working capital items approximate their recorded values at June 30, 2011 and December 31, 2010 due to their short-term nature.

The fair values of the Company's mortgages, credit facilities, and term loans based on discounting cash flows at the rate offered to the Company for debts of the same remaining maturities approximate their book values.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

The Company has classified and disclosed the fair value for each class of financial instrument based on the fair value hierarchy established under IFRS.

The table below presents the Company's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as of June 30, 2011 and December 31, 2010, respectively, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts the Company could ultimately realize.

<i>(thousands of dollars)</i>	Level 1 <i>Quoted prices in active markets</i>	Level 2 <i>Observable input</i>	Level 3 <i>Unobservable input</i>	Total
June 30, 2011				
Assets				
Cash and cash equivalents	\$25,541	\$ -	\$ -	\$25,541
Investment in Equity One, Inc.	256,731	-	-	256,731
Investments in marketable securities	7,469	-	-	7,469
Option on affiliate advance	-	-	497	497
Liabilities				
Derivative instruments	-	1,270	-	1,270
December 31, 2010				
Assets				
Cash	\$9,145	\$ -	\$ -	\$9,145
Investments in marketable securities	3,797	-	-	3,797
Option on affiliate advance	-	-	753	753
Liabilities				
Derivative instruments	-	881	-	881

20. SEGMENTED INFORMATION

The Company has two reportable segments consisting of investment properties and its investment in Equity One. At June 30, 2011, investment properties consist of ownership in eight medical office properties totaling approximately 523,000 square feet of leasable space. At June 30, 2011, the investment in Equity One consisted of an approximate 12.6% interest in Equity One, a U.S. real estate investment trust that as at June 30, 2011 owned or had interest in 199 properties in the U.S. totaling approximately 20.7 million square feet of gross leasable space, and joint venture interests in 20 properties totaling approximately 3.2 million square feet.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Income by segment is summarized as follows:

<i>(thousands of dollars)</i>	Three months ended June 30, 2011			Six months ended June 30, 2011		
	Equity One investment	Investment properties	Total	Equity One investment	Investment properties	Total
Revenues and equity income						
Equity income from Equity One	\$3,051	\$ -	\$3,051	\$10,324	\$ -	\$10,324
Rental revenue	-	3,500	3,500	-	5,824	5,824
	3,051	3,500	6,551	10,324	5,824	16,148
Expenses						
Property operating expenses	-	1,638	1,638	-	2,811	2,811
Net operating income	\$3,051	\$1,862	\$4,913	\$10,324	\$3,013	\$13,337
Total assets as at June 30, 2011				256,731	146,221	\$402,952

<i>(thousands of dollars)</i>	Three months ended June 30, 2010			Six months ended June 30, 2010		
	Equity One investment	Investment properties	Total	Equity One investment	Investment properties	Total
Revenues and equity income						
Equity income from Equity One	\$2,484	\$ -	\$2,484	\$4,573	\$ -	\$4,573
Rental revenue	-	1,103	1,103	-	1,872	1,872
	2,484	1,103	3,587	4,573	1,872	6,445
Expenses						
Property operating expenses	-	522	522	-	975	975
Net operating income	\$2,484	\$581	\$3,065	\$4,573	\$897	\$5,470
Total assets as at December 31, 2010				203,154	50,424	\$253,578

The performance of the segments is evaluated by management primarily on net operating income ("NOI"), which management defines as rental revenues less property operating expenses. NOI includes income from equity investments.

The Company does not allocate to the individual segment interest and other income, interest expense, corporate expenses, dilution gains, realized and unrealized gain on foreign exchange translation of intercompany amounts and income taxes.

21. COMMITMENTS AND CONTINGENCIES

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

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Significant Shareholder Has Pledged Its Securities as Collateral under Revolving Credit Facilities

Gazit-Globe indirectly owned 73.1% of the common shares of the Company and approximately 79.1% of the Company's outstanding warrants as at June 30, 2011 through Gazit Maple, one of its wholly-owned Canadian subsidiaries. The market price of these securities could be significantly affected if Gazit-Globe sells some or all of their securities of the Company or are perceived by the market as intending to sell such securities. Moreover, on June 30, 2011, Gazit Maple announced that it has entered into agreements with a third party financial institution and its lending affiliate (the "Lenders") pursuant to which it has guaranteed in favour of the Lenders certain obligations of Gazit-Globe and one of its subsidiaries under revolving credit facilities ("Gazit Group Credit Facilities") made available to Gazit-Globe and its subsidiary and has pledged all of the common shares and 8,270,193 warrants of the Company owned by Gazit Maple to the Lenders as collateral to secure Gazit Maple's guarantee.

While the Company has not been provided with a copy of Gazit Maple's guarantee, the related 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 related 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.

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 terms 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.

22. RELATED PARTY TRANSACTIONS

During the three and six months ended June 30, 2011 and 2010, the Company:

- (a) Incurred interest of \$0.8 million and \$1.5 million, respectively (2010 – \$0.8 million and \$1.6 million, respectively) on the subordinated term loan from FCR, which is included in interest expense.
- (b) Earned and received fees from Gazit Canada of \$19,000 and \$37,000, respectively (2010 – \$15,000 and \$43,000, respectively) in connection with providing accounting, administrative and other services under the Gazit Canada Services Agreement.
- (c) Incurred interest of \$0.2 million and \$0.4 million, respectively (2010 – \$nil and \$nil, respectively) in connection with the Bridge Facility with Gazit Maple, which is included in interest expense.
- (d) Incurred office rental expense of \$57,000 and \$0.1 million, respectively (2010 – \$29,000 and \$58,000, respectively) in connection with the FCR lease agreement, which is for the use of office space currently occupied by the Company.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

23. SUBSEQUENT EVENTS

On July 15, 2011, the Company completed the purchase of the Meadowlark Health & Shopping Centre in Edmonton, Alberta in a 50/50 joint venture with FCR. The Meadowlark Health & Shopping Centre consists of nine separate single storey buildings, comprising 306,000 square feet of gross leasable area on a 23 acre site. It is currently 100% leased with a strong mix of medical office and retail tenants. The property was acquired for a total purchase price of \$84.0 million including closing costs, of which \$42.0 million is the Company's share. The purchase was financed with cash and new mortgage financing of \$50.0 million, of which \$25.0 million is the Company's share. The Company has entered into a property management agreement with FCR whereby FCR performs the property management activities on behalf of the joint venture for a fee consistent with market terms.

On July 14, 2011, the Company obtained exempt issuer status with the Toronto Stock Exchange.