



GAZIT AMERICA INC.

Consolidated Financial Statements

September 30, 2011

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

	September 30 2011	December 31 2010
ASSETS		
Non-current assets		
Investment properties (note 4)	\$149,760	\$30,541
Investment in Equity One, Inc. (note 6)	237,398	203,154
Other non-current assets (note 7)	820	863
	<u>387,978</u>	<u>234,558</u>
Current assets		
Cash	4,561	9,145
Other current assets (note 8)	14,251	9,875
	<u>18,812</u>	<u>19,020</u>
	<u>\$406,790</u>	<u>\$253,578</u>
LIABILITIES		
Non-current liabilities		
Mortgages, credit facilities and term loans (note 9)	\$183,813	\$112,189
Loan payable to affiliated entity (note 10)	38,196	35,793
Other non-current liabilities (note 11)	2,763	1,035
Deferred income tax liability (note 13)	36,442	11,466
	<u>261,214</u>	<u>160,483</u>
Current liabilities		
Mortgages, credit facilities and term loans (note 9)	7,759	6,689
Loan payable to affiliated entity (note 10)	266	1,099
Accounts payable and other liabilities (note 12)	3,537	2,706
	<u>11,562</u>	<u>10,494</u>
SHAREHOLDERS' EQUITY	<u>134,014</u>	<u>82,601</u>
	<u>\$406,790</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		Nine months ended	
	September 30 2011	September 30 2010	September 30 2011	September 30 2010
REVENUE				
Rental revenues (note 16)	\$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
EXPENSES				
Interest expense, net (note 17)	2,992	2,433	8,038	6,931
General and administrative expenses	1,506	1,068	4,923	3,405
	4,498	3,501	12,961	10,336
Equity income from Equity One, Inc. (note 6)	-	1,391	8,372	5,964
Dilution gain (loss) on investment in Equity One, Inc. (note 6)	-	(132)	223	(244)
Dividends from Equity One, Inc. (note 6)	3,081	-	3,081	-
	3,081	1,259	11,676	5,720
Income (loss) before the undernoted	931	(1,740)	4,076	(3,217)
Unrealized loss on interest rate swaps and option (note 19(d) and note 10, respectively)	(1,308)	(1,284)	(1,977)	(3,528)
Fair value gain (loss) on investment properties	134	(170)	955	(852)
Fair value gain on investment in Equity One, Inc. (note 6)	-	-	34,136	-
Unrealized gain (loss) on foreign exchange	(2,969)	1,269	(1,856)	802
Income (loss) before income taxes	(3,212)	(1,925)	35,334	(6,795)
Income taxes (note 13)				
Current (recovery) expense	(395)	388	(27)	1,174
Deferred tax expense (recovery)	171	(673)	11,819	(1,805)
	(224)	(285)	11,792	(631)
Net income (loss)	(\$2,988)	(\$1,640)	\$23,542	(\$6,164)
Earnings (loss) per common share, basic (note 15)	(\$0.13)	(\$0.12)	\$1.21	(\$0.48)
Earnings (loss) per common share, diluted (note 15)	(\$0.13)	(\$0.12)	\$1.20	(\$0.48)

See accompanying notes to the consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2011	2010	2011	2010
Net income (loss)	(\$2,988)	(\$1,640)	\$23,542	(\$6,164)
Other comprehensive (loss) income				
Foreign currency translation	7,704	(3,085)	5,320	(1,860)
Other comprehensive loss of Equity One, Inc. (note 6)	-	(2)	(1,121)	(432)
Unrealized gain (loss) on available-for-sale marketable securities	(39,270)	158	(39,078)	311
Deferred income tax recovery on unrealized gain (loss) on available-for-sale marketable securities	13,432	-	13,432	-
	(18,134)	(2,929)	(21,447)	(1,981)
Comprehensive gain (loss)	(\$21,122)	(\$4,569)	\$2,095	(\$8,145)

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	-	-	-	-	23,542	-	23,542	23,542
Other comprehensive loss (note 14 (b))	-	-	-	-	-	(21,447)	(21,447)	(21,447)
Total comprehensive income							2,095	84,696
Shares and warrants issued	7,768,878	25,865	-	22,452	-	-	-	48,317
Options and DSUs issued (notes 14(c),(d))	-	-	-	997	-	-	-	997
Exercise of warrants (note 14 (e))	742	5	-	(1)	-	-	-	4
Shareholders' equity, September 30, 2011	15,537,462	\$85,504	\$1,263	\$29,163	\$41,033	(\$22,949)	\$18,084	134,014

	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	-	-	-	-	(6,164)	-	(6,164)	(6,164)
Other comprehensive loss	-	-	-	-	-	(1,981)	(1,981)	(1,981)
Total comprehensive income							(8,145)	(8,145)
Options and DSUs issued	-	-	-	1,056	-	-	-	1,056
Rights offering and private placement (note 14(a))	2,689,575	8,698	-	4,169	-	-	-	12,867
Shareholders' equity, September 30, 2010	12,847,877	59,874	1,263	5,225	16,535	(256)	16,279	82,641

See accompanying notes to the consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 30 2011	September 30 2010	September 30 2011	September 30 2010
Operating Activities				
Net income (loss)	(\$2,988)	(\$1,640)	\$23,542	(\$6,164)
Items not affecting cash:				
Amortization	21	6	31	10
Non-cash interest expense	21	59	(18)	134
Non-cash portion of gain on sale of marketable securities	-	-	(101)	-
Dividend received from Equity One, Inc. (note 6)	-	3,222	6,137	9,650
Equity income from Equity One, Inc. (note 6)	-	(1,391)	(8,372)	(5,964)
Fair value gain on investment in Equity One, Inc. (note 6)	-	-	(34,136)	-
Dilution (gain) loss on investment in Equity One, Inc. (note 6)	-	132	(223)	244
Deferred income tax expense (recovery)	171	(673)	11,819	(1,805)
Fair value (gain) loss on investment properties	(134)	170	(955)	852
Unrealized (gain) loss on foreign exchange translation	2,969	(1,269)	1,856	(802)
Unrealized loss on interest rate swaps and option	1,308	1,284	1,977	3,528
Non-cash compensation expense	291	469	997	1,056
Net change in non-cash operating items	(1,325)	(1,480)	(1,390)	244
Cash provided by (used in) operating activities	334	(1,111)	1,164	983
Investing Activities				
Acquisition of investment properties, net of \$21.9 million mortgages assumed	(42,488)	(360)	(95,407)	(4,023)
Capital expenditures	(206)	(272)	(860)	(290)
Deposits on properties under option	(611)	-	748	-
Investment in common shares of Equity One, Inc. (note 6)	-	-	-	(1,882)
Investments in marketable securities	(369)	(208)	(4,287)	(2,131)
Proceeds from sale of marketable securities	-	-	611	-
Cash used in investing activities	(43,674)	(840)	(99,195)	(8,326)
Financing Activities				
Proceeds from issuance of common shares	-	8,698	25,905	8,698
Proceeds from issuance of common share warrants	-	4,169	22,452	4,169
Proceeds from exercise of warrants	-	-	5	-
Proceeds from mortgages	25,000	-	41,500	-
Proceeds from credit facilities	-	618	17,000	11,612
Repayment of mortgages, credit facilities, and term loans	(2,963)	(3,880)	(13,499)	(7,396)
Payments to affiliated entities	-	(855)	(40,043)	(2,384)
Receipts from affiliated entities	-	1,606	39,902	1,606
Cash provided by financing activities	22,037	10,356	93,222	16,305
Effect of currency rate movement on cash balances	323	829	225	799
(Decrease) increase in cash	(20,980)	9,234	(4,584)	9,761
Cash, beginning of period	25,541	4,418	9,145	3,891
Cash, end of period	\$4,561	\$13,652	\$4,561	\$13,652
SUPPLEMENTARY INFORMATION				
Income taxes paid	\$0	\$0	\$0	\$22
Interest paid	\$2,916	\$2,372	\$8,240	\$7,655

See accompanying notes to the consolidated financial statements.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

1. ORGANIZATION

In June 2009, First Capital America Holding Corp. ("FCAH") amalgamated with two Ontario numbered companies (the "Amalgamation") that held First Capital Realty Inc.'s ("FCR") ownership interest in FCAH, to form Gazit America Inc. ("Gazit America" or the "Company"). 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. A total of 9,212,413 shares of the Company were distributed as a dividend-in-kind. An additional 3,635,464 common shares of the Company were issued to complete the acquisition of ProMed Properties (CA) Inc. Upon completion of the spin-off on August 14, 2009, the Company became a separate publicly listed company in Canada.

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 September 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").

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These condensed consolidated interim 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.

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 interim financial statements as at and for the three months ended March 31, 2011 for the comparative annual period.

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

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors (the "Board") of the Company on November 10, 2011.

3. TRANSITION TO IFRS

The Company 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 as at that date. The Company will 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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(a) Elected exemptions from full retrospective application

In preparing these condensed consolidated interim 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 interim 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 the criteria laid out in IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), 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 Interim Financial Statements

September 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 as at September 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 - Sep. 30, 2010		\$59,874	\$1,263	\$5,169	\$16,953	(\$19,927)	(\$2,974)	\$63,332
Adjustments increase (decrease):								
Investment properties	(i)	-	-	-	(443)	-	(443)	(443)
Investment in associate	(ii)	-	-	-	20,017	1,210	21,227	21,227
Hedge accounting	(iii)	-	-	-	(1,797)	1,797	-	-
Share-based compensation	(iv)	-	-	56	(56)	-	(56)	-
Deferred taxes	(v)	-	-	-	169	-	169	169
Cumulative translation amount	(vi)	-	-	-	(18,308)	16,664	(1,644)	(1,644)
Under IFRS - Sep. 30, 2010		\$59,874	\$1,263	\$5,225	\$16,535	(\$256)	\$16,279	\$82,641

(i) Investment properties

The Company considers its properties to be investment properties under IAS 40, "Investment Property" ("IAS 40"). Investment properties include 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 properties are 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 properties. The Company has elected to use the fair value method.

This adjustment to retained earnings represents the cumulative unrealized gain or loss in respect of the Company's investment properties, 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 September 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 Interim Financial Statements

September 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 nine months 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 \$1.6 million at September 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 nine months ended September 30, 2010:

<i>(thousands of dollars)</i>	Note	Three months ended Sep. 30, 2010	Nine months ended Sep. 30, 2010
Net loss under Canadian GAAP		(\$1,581)	(\$4,632)
Adjustments increase (decrease) income:			
Investment properties	(i)	175	99
Investment in associate	(ii)	(268)	(1,829)
Hedge accounting	(iii)	7	107
Share-based compensation	(iv)	(22)	(56)
Deferred taxes	(v)	49	147
Net loss under IFRS		(\$1,640)	(\$6,164)

(i) Investment properties

In accordance with the Company's policy under IFRS to measure investment properties 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 properties was amortized to income or revenue 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 properties.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(ii) Investment in associate

As described in note 3(c)(ii), under the equity method of accounting for investment in associate, 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 nine months ended September 30, 2010:

<i>(thousands of dollars)</i>	Note	Three months ended Sep. 30, 2010	Nine months ended Sep. 30, 2010
Comprehensive loss under Canadian GAAP		(\$3,663)	(\$4,453)
Adjustments increase (decrease) comprehensive income:			
Differences in net income	(i)	(59)	(1,532)
Foreign currency translation	(ii)	(792)	(1,644)
Hedge accounting	(iii)	(56)	(254)
Other		1	(262)
Comprehensive loss under IFRS		(\$4,569)	(\$8,145)

(i) Differences in net income

Reflects the differences in net loss 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 operating, financing, and investing subtotals of the cash flow statement as a result of the conversion to IFRS.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

4. INVESTMENT PROPERTIES

<i>(thousands of dollars)</i>	September 30 2011	December 31 2010
Balance, beginning of period	\$30,541	\$16,600
Additions		
Property acquisitions (note 5)	117,688	13,969
Tenant and other capital expenditure	576	487
Fair value gains (losses)	955	(515)
	\$149,760	\$30,541

The Company has appraisals from external valuers for a number of properties, with an aggregate fair value of \$104.6 million as at September 30, 2011. For the quarter ended September 30, 2011, internal valuations were prepared by the Company for the rest of the 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 one property. In completing its internal appraisals for the remaining portfolio in 2010, 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
September 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 (decrease) in discount rate would decrease (increase) the fair value of investment properties by an aggregate of \$4.0 million.

Included in investment properties is \$0.1 million (December 31, 2010 – \$13,000) 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 \$149.2 million (December 31, 2010 – \$29.9 million) are pledged as security for debt (note 9).

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

5. ACQUISITIONS

During the three months ended September 30, 2011, the Company acquired a property in a 50/50 joint venture with FCR in Edmonton, Alberta totaling 153,000 square feet (being the Company's proportionate interest) for a purchase price to the Company of \$42.3 million, representing the Company proportionate share, (excluding working capital of \$0.1 million), or \$17.2 million net of new financing of \$25.0 million, which is the Company's share. In addition, the Company acquired five properties totaling 357,000 square feet during the first quarter of 2011 for an aggregate purchase price of \$75.4 million (excluding working capital of \$0.3 million), or \$36.7 million net of new or assumed mortgages. There were no properties purchased in the second quarter of 2011. The existing strategic management function 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 property acquired during the nine months ended September 30, 2011 as at the date of acquisition were as follows:

<i>thousands of dollars</i>	Fair value recognized on acquisition
Investment properties	\$117,688
Working capital	(440)
	117,248
Mortgages assumed at fair value (note 9)	21,878
	21,878
Total identifiable net assets at fair value	\$95,370

Transaction costs of \$2.4 million incurred in connection with the acquisitions have been capitalized to investment properties.

The joint venture with FCR in respect of the Edmonton property acquired in the third quarter of 2011 was determined to be a jointly controlled asset in accordance with IAS 31, "Interests in Joint Ventures" ("IAS 31"). Therefore, the Company has recognized in these financial statements its 50% share of the jointly controlled assets and liabilities of the joint venture and of the revenues earned and expenses incurred by the joint venture.

6. INVESTMENT IN EQUITY ONE, INC.

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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

For the nine months ended September 30, 2011, the Company received \$9.2 million in dividends from Equity One. Details of the share price and shares outstanding of Equity One are as follows:

	September 30 2011	December 31 2010
Equity One share price	US\$15.86	US\$18.18
Carrying value per share of investment in Equity One		
In US dollars	US\$15.86	US\$14.30
In Canadian dollars	\$16.62	\$14.23
Equity One shares outstanding ⁽¹⁾	114,661,477	102,588,687
Shares owned by the Company	14,280,069	14,280,069
Percentage ownership	12.5%	13.9%

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

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 114.7 million as at September 30, 2011. Following these transactions, the Company's proportionate ownership interest in Equity One decreased from 13.9% at December 31, 2010 to 12.5% at September 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.

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 had declined since its original acquisition (reflecting dilution from equity offerings), and declined further in the nine months ended September 30, 2011 as the Company did not participate in Equity One's public offering described below. The Company's ownership percentage in Equity One may decline further as the Company focuses on its core business in investment properties.

Effective June 30, 2011, the investment in Equity One was recorded at fair value. The impact was a reclassification of a deferred tax liability of \$23.9 million and a fair value gain on investment of \$34.1 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 is 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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

The following table summarizes the activity of the investment in Equity One during the first six months of 2011 until the date of reclassification.

<i>(thousands of dollars)</i>	Six months ended June 30, 2011	Year ended December 31, 2010
Investment in Equity One, beginning of period	\$203,154	\$216,270
Equity income	8,372	7,372
Distributions 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	(6,137)	(11,642)
Sub-total before reclassification of investment in Equity One	200,542	203,154
Reclassification of deferred tax liability	23,926	-
Fair value gain on investment in Equity One	32,263	-
Investment in Equity One at June 30, 2011	\$256,731	\$203,154

The following table summarizes the activity of the investment in Equity One during the three months ended September 30, 2011 following the reclassification.

<i>(thousands of dollars)</i>	Three months ended September 30, 2011
Investment in Equity One at June 30, 2011	\$256,731
Fair value adjustment recognized through OCI	(38,933)
Foreign exchange effect	19,600
Investment in Equity One, end of period <i>(fair market value based on closing price of Equity One as at September 30, 2011 on the New York Stock Exchange)</i>	237,398
Ownership interest in Equity One, end of period	12.5%

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 (a subsidiary of Capital Shopping Centres). 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:

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

Consolidated Statement of Earnings (Loss)

Three months ended March 31, 2011

<i>(Thousands of dollars, except per share amounts)</i>	<i>Previously reported</i>	<i>Adjustment</i>	<i>Restated</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

Six months ended June 30, 2011

	<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

Certain of the information concerning Equity One contained in this report 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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

7. OTHER NON-CURRENT ASSETS

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

<i>(thousands of dollars)</i>	September 30 2011	December 31 2010
Option on loan payable to affiliate (note 10)	\$145	\$753
Leasehold improvements, furniture, and computers, net	278	25
Other non-current assets	397	85
	\$820	\$863

8. OTHER CURRENT ASSETS

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

<i>(thousands of dollars)</i>	September 30 2011	December 31 2010
Trade and other receivables	\$918	\$339
Investment in marketable securities	7,540	3,797
Deposits and costs of properties under option	1,745	2,493
Prepaid expenses	1,046	418
Income tax recoverable	2,570	2,440
Other current assets	432	388
	\$14,251	\$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 Interim Financial Statements

September 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	Sep. 30, 2011	Weighted Average Interest Rate	Dec. 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% ⁽¹⁾	52,410	5.62% ⁽¹⁾	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 million credit facility					
Floating rate	Apr. 2013	2.30%	7,848		-
Total US dollar denominated			114,664		110,479
Total debt outstanding			192,153		119,390
Unamortized deferred financing costs			(581)		(512)
			\$191,572		\$118,878
Current			\$7,759		\$6,689
Non-current			183,813		112,189
			\$191,572		\$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. 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. 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 nine months ended September 30, 2011, the Company completed three new mortgage agreements totaling \$41.5 million secured by its Edmonton, Longueuil and Mississauga properties.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 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 September 30, 2011, \$6.0 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 September 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.

Refer to Note 19(e) for debt repayment schedule.

10. LOAN PAYABLE TO AFFILIATED ENTITY

Loan payable to affiliated entity (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 September 30, 2011 was \$0.1 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 \$0.7 million (December 31, 2010 – \$1.0 million). During the nine months ended September 30, 2011, amortization of \$0.3 million of the premium was recognized in interest expense and \$0.6 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 first quarter 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:

	September 30	September 30
<i>(thousands of dollars)</i>	2011	2011
Mark-to-market swap liabilities	\$2,403	\$881
Security deposits	360	154
	\$2,763	\$1,035

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 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>	September 30 2011	December 31 2010
Trade accounts payable and accruals	\$2,501	\$1,864
Accrued interest	1,036	842
	\$3,537	\$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		Nine months ended	
	2011	September 30 2010	2011	September 30 2010
Provision for income taxes at the combined Canadian federal and provincial income tax rate of 28.2% (2010 - 31.0%)	(\$907)	(\$596)	\$9,981	(\$2,106)
Increase (decrease) in the provision for income taxes due to the following items:				
Investment in Equity One, Inc.	(3)	466	(1,906)	208
Foreign tax rate differentials	36	(58)	2,523	(57)
Other	650	(97)	1,194	1,324
Income taxes	(\$224)	(\$285)	\$11,792	(\$631)
Comprised of:				
Current income taxes	(\$395)	\$388	(\$27)	\$1,174
Deferred income taxes	171	(673)	11,819	(1,805)
	(\$224)	(\$285)	\$11,792	(\$631)

At September 30, 2011, the Company has tax loss carry-forwards of \$12.9 million available to reduce future Canadian taxable income, which expire between December 2027 and December 2029.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

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

<i>(thousands of dollars)</i>	September 30 2011	December 31 2010
Difference between carrying value and tax value of Investment in Equity One, Inc.	\$35,776	\$10,540
Other	666	926
	\$36,442	\$11,466

The movement for the nine months ended September 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>	September 30 2011	December 31 2010
Net deferred tax asset (liability)		
Balance, beginning of period	(\$11,466)	(\$9,630)
Income tax (expense) recovery recorded in income	(11,819)	(248)
Income tax (expense) recovery recorded in other comprehensive income	13,432	-
Reclassification of deferred tax liability from investment in Equity One, Inc.	(23,926)	-
Effects of foreign exchange translation	(2,691)	543
Other	28	(2,131)
	(\$36,442)	(\$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 a 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. In connection with the completion 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 warrants now 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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

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 (December 31, 2010 – 15,537,462 and 2,689,565, respectively).

(b) Accumulated other comprehensive income (loss)

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

<i>(thousands of dollars)</i>	September 30 2011	December 31 2010
Foreign currency translation adjustments	\$2,302	(\$3,018)
Other comprehensive income of Equity One, Inc.	-	1,121
Investment in Equity One, Inc.	(38,933)	-
Deferred income tax recovery	13,432	-
Other	250	395
	(\$22,949)	(\$1,502)

(c) 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. An increase of 300,000 common shares from the amount previously reserved for issuance at December 31, 2010 was approved by the shareholders at the Company's annual general meeting. Options granted by the Company generally expire after ten years and vest over three years.

<i>(For the nine months ended)</i>	September 30 2011		September 30 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	937,500	\$6.23	-	-
Granted	106,500	\$6.75	1,062,500	\$6.55
Forfeited	(127,500)	\$6.48	(125,000)	\$6.48
Outstanding, end of period	916,500	\$6.26	937,500	\$6.56
Exercisable, end of period	270,000	\$6.17	-	-

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 September 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 nine months ended September 30, 2011, 127,500 options with an exercise price of \$6.48 were forfeited.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

Stock options outstanding and vested as at September 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	8.55	270,000	\$6.17
\$6.51 to \$7.00	106,500	9.39	-	-
	916,500	8.65	270,000	\$6.17

As at September 30, 2011, 376,000 common share options are available to be granted. The fair values of options granted 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 dates. For the three and nine months ended September 30, 2011, \$0.2 million and \$0.8 million, respectively (three and nine months ended September 30, 2010 – \$0.4 million and \$0.8 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% (from \$6.48 and \$6.75 to \$6.08 and \$6.31, respectively) 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 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"), 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:

	September 30 2011	September 30 2010
<i>(For the nine months ended)</i>		
Outstanding, beginning of period	55,178	14,020
Granted	32,403	30,304
Outstanding, end of period	87,581	44,324

As at September 30, 2011, a total of 87,581 DSUs have been granted to directors. For the three and nine months ended September 30, 2011, \$0.1 million and \$0.2 million, respectively (three and nine months ended September 30, 2010 – \$0.1 million and \$0.3 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

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

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. During the three and nine months ended September 30, 2011, nil and 742 warrants were exercised and as at September 30, 2011, there were 10,457,701 warrants outstanding (exercisable for 10,634,088 common shares).

(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 September 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 amounts)</i>	Three months ended		Nine months ended	
	2011	September 30 2010	2011	September 30 2010
Basic and diluted net income (loss) available to common shareholders	(\$2,988)	(\$1,640)	\$23,542	(\$6,164)
Weighted average shares outstanding,				
Basic	23,381,377	13,227,926	19,529,770	12,975,952
Dilutive effect of warrants outstanding	-	-	109,935	-
Weighted average diluted shares outstanding	23,381,377	13,227,926	19,639,705	12,975,952
Basic earnings (loss) per share	(\$0.13)	(\$0.12)	\$1.21	(\$0.48)
Diluted earnings (loss) per share	(\$0.13)	(\$0.12)	\$1.20	(\$0.48)

Included in weighted average shares outstanding, basic, are all 87,581 DSUs issued under the DSU Plan, in accordance with IAS 33, "Earnings per Share", as the DSUs represent mandatorily convertible instruments. As at September 30, 2011, the Company had 916,500 (September 30, 2010 – 937,500) stock options that were outstanding and anti-dilutive, and, therefore were excluded from the computation of diluted earnings per share.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

16. RENTAL REVENUES

The Company's rental revenues consist of the following:

<i>(thousands of dollars)</i>	Three months ended		Nine months ended	
	2011	September 30 2010	2011	September 30 2010
Rental revenues	\$3,898	930	\$9,278	2,574
Other revenues	311	112	755	340
	\$4,209	\$1,042	\$10,033	\$2,914

17. INTEREST EXPENSE, NET

The Company's interest expense, net consists of the following:

<i>(thousands of dollars)</i>	Three months ended		Nine months ended	
	2011	September 30 2010	2011	September 30 2010
Term loans	\$1,831	\$2,109	\$5,768	\$6,220
Credit facilities	354	145	783	353
Mortgages	863	161	1,800	300
Non-cash interest expense	21	58	(18)	134
Interest and other income	(77)	(40)	(295)	(76)
Interest expense, net	\$2,992	\$2,433	\$8,038	\$6,931

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 and convertible debentures, and enter into conventional mortgage debt secured by investment properties and other credit facilities.

The Company's capital structure currently includes common shares, common share warrants, mortgages secured by investment properties, loan payable to affiliated entity, term loans, and 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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

<i>(thousands of dollars)</i>	September 30, 2011	December 31, 2010
Liabilities		
Mortgages	\$71,489	\$8,911
Term loans and credit facilities	120,664	110,479
Loan payable to affiliated entity	38,462	36,892
	230,615	156,282
Shareholders' equity		
Common shares (based on closing price of \$4.95) (Dec. 31, 2010 - \$5.64)	115,370	87,631
Common share warrants (based on closing prices of \$0.65 and \$0.80) (Dec. 31, 2010 - \$ 1.15)	7,963	3,093
	123,333	90,724
	\$353,948	\$247,006

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 mortgages, credit facilities and term loans including equity to debt ratios, and certain ratios of loan to market value of the applicable pledged security. Customary negative covenants apply to mortgages, credit facilities and term loans. The Company is in compliance with all its financial covenants.

19. RISK MANAGEMENT

The Company's principal financial liabilities, other than derivatives, consist of mortgages, credit facilities, and term loans. 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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(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 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 September 30, 2011, the Canadian dollar to United States dollar exchange rate (\$Cdn/\$US) was \$1.05 (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.

(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.

(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 September 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 \$2.4 million or US\$2.3 million at September 30, 2011 (December 31, 2010 – negative \$0.9 million or US\$0.9 million).

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.

(e) Liquidity risk

Real estate investments are relatively illiquid. Also, 58% of the Company's total assets are represented by its 12.5% 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 carrying 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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

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			
		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.

(f) Fair values of financial instruments

The fair values of the Company's net working capital items approximate their recorded values at September 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.

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

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

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 September 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
September 30, 2011				
Assets				
Cash and cash equivalents	\$4,561	\$ -	\$ -	\$4,561
Investment in Equity One, Inc.	237,398	-	-	237,398
Investments in marketable securities	7,540	-	-	7,540
Option on affiliate advance	-	-	145	145
Liabilities				
Derivative instruments	-	2,403	-	2,403
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 September 30, 2011, investment properties consist of interests in nine medical office properties totaling approximately 676,000 square feet of leasable space. At September 30, 2011, the investment in Equity One consisted of an approximate 12.5% interest in Equity One, a U.S. real estate investment trust that as at September 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 16 properties totaling approximately 2.7 million square feet.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

Income by segment is summarized as follows:

<i>(thousands of dollars)</i>	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Investment properties	Equity One investment	Total	Investment properties	Equity One investment	Total
Revenues and equity income						
Rental revenues	\$4,209	\$ -	\$4,209	\$10,033	\$ -	\$10,033
Equity income from Equity One	-	-	-	-	8,372	\$8,372
Dividends from Equity One	-	3,081	3,081	-	3,081	\$3,081
	4,209	3,081	7,290	10,033	11,453	21,486
Expenses						
Property operating expenses	1,861	-	1,861	4,672	-	4,672
Net operating income, equity income and dividend from Equity One						
	\$2,348	\$3,081	\$5,429	\$5,361	\$11,453	\$16,814
Net operating income						
	\$2,348	\$ -	\$2,348	\$5,361	\$ -	\$5,361
Total assets as at September 30, 2011						
				\$163,328	\$243,462	\$406,790

<i>(thousands of dollars)</i>	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Investment properties	Equity One investment	Total	Investment properties	Equity One investment	Total
Revenues and equity income						
Rental revenues	\$1,042	\$ -	\$1,042	\$2,914	\$ -	\$2,914
Equity income from Equity One	-	1,391	1,391	-	5,964	5,964
	1,042	1,391	2,433	2,914	5,964	8,878
Expenses						
Property operating expenses	540	-	540	1,515	-	1,515
Net operating income and equity income						
	\$502	\$1,391	\$1,893	\$1,399	\$5,964	\$7,363
Net operating income						
	\$502	\$ -	\$502	\$1,399	\$ -	\$1,399
Total assets as at December 31, 2010						
				\$47,287	\$206,291	\$253,578

The performance of the segments is evaluated by management primarily on net operating income ("NOI"), which management defines for the investment properties segment as rental revenues less property operating expenses.

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.

GAZIT AMERICA INC.

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

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.

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 September 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 had 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 nine months ended September 30, 2011 and 2010, the Company:

- (a) Incurred interest of \$0.8 million and \$2.3 million, respectively (2010 – \$0.8 million and \$2.4 million, respectively) on the subordinated term loan from FCR, which is included in interest expense.
- (b) Earned and received fees from Gazit Canada of \$10,000 and \$47,000, respectively (2010 – \$15,000 and \$58,000, 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 \$0.1 million and \$0.2 million, respectively (2010 – \$29,000 and \$0.1 million, 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 Interim Financial Statements

September 30, 2011

(Unaudited)

- (e) Incurred property management fees of \$24,000 and \$24,000, respectively (2010 – nil and nil) to FCR Management Services LP, a subsidiary of FCR, in connection with the management of the Meadowlark Health and Shopping Centre ("Meadowlark") joint venture, pursuant to the Property Management Agreement entered into by the Company and FCR, and negotiated on customary arm's length commercial terms.
- (f) Incurred \$0.2 million and \$0.2 million, respectively (2010 – nil and nil) of acquisition related fees paid to FCR in connection with the joint venture acquisition of Meadowlark, pursuant to the Primary Agreement entered into by the Company and FCR, which was negotiated on customary arm's length commercial terms.

23. SUBSEQUENT EVENTS

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 located 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.