NORTHSTAR HEALTHCARE INC.

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

Third Quarter 2007

From the Inception of Operations on May 17, 2007 to September 30, 2007 and the Three Months Ended September 30, 2007

The following management discussion and analysis of the financial condition and results of operations of Northstar Healthcare Inc. (the "Company" or "NHC") for the period from May 17, 2007 to September 30, 2007 is provided as of November 14, 2007. It is supplemental to, and should be read in conjunction with the financial statements of the Company for the period from May 17, 2007 to September 30, 2007. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Substantially all of the Company's operating cash flows are in U.S. dollars; accordingly, all amounts presented herein are stated in U.S. dollars, unless otherwise indicated.

FORWARD LOOKING STATEMENTS

This management's discussion and analysis contains "forward-looking statements" that involve significant known and unknown risks, uncertainties and assumptions. Important assumptions relating to the forward-looking statements contained in this management's discussion and analysis include expansion, capital expenditures, competitive conditions and gross economic conditions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, the risk factors described in this management's discussion and analysis. Should one or more of these risks or uncertainties materialize or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking statements. These forward-looking statements are made as of the date hereof and we do not intend, and do not assume any obligation, to update or revise these forward-looking statements.

NON-GAAP FINANCIAL MEASURES

This management's discussion and analysis contains references to EBITDA (earnings before interest, taxes, depreciation and amortization). Management believes that EBITDA is a useful supplemental measure of cash available for dividends prior to debt service, capital expenditures, income taxes and other reserves. However, EBITDA is not a recognized earnings measure under Canadian GAAP and does not have a standardized meaning prescribed by Canadian GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss (which are determined in accordance with Canadian GAAP) as an indicator of the performance of the Company or its subsidiaries or as a measure of liquidity and cash flows.

PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated on March 16, 2007 and completed its initial public offering and acquisition of its subsidiaries on May 17, 2007.

The period ended September 30, 2007 (part of fiscal year 2007) includes from the inception of operations on May 17, 2007 to September 30, 2007. There are no financial statements for the 2006 prior period for the Company (or its subsidiaries) that can be used on a comprehensive basis for comparing the operating results for the period from May 17, 2007 to September 30, 2007 with those of the year-ending period. At the time of the Company's initial public offering, it acquired controlling interests in two distinct businesses: The Palladium for Surgery – Houston, Ltd. (the "Palladium Partnership") and Medical Ambulatory Surgical Suites, LLP (the "Kirby Partnership" and together with the Palladium Partnership, the "Northstar Partnerships"). Historically, neither the Palladium Partnership nor the Kirby Partnership prepared quarterly financial statements. Accordingly, it is impracticable to present prior-period information on a basis consistent with the results for the period from May 17, 2007 to September 30, 2007 and the three months ended September 30, 2007.

We have provided a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Palladium Partnership and the Kirby Partnership for the three- and nine-month periods ended September 30, 2007 compared with the prior year periods. Cases and procedures are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as gross billings and net patient service revenues vary by patient, insurance carrier and procedure.

GENERAL

Northstar Healthcare Inc. (the "Company" or "NHC") was incorporated under the Business Corporations Act (British Columbia) on March 16, 2007. NHC is a corporation formed to indirectly acquire and/or manage ambulatory surgery centres in the United States, focusing initially on Houston and other metropolitan areas in Texas. NHC used the net proceeds of an initial public offering, including the over-allotment, to indirectly acquire a 70% partnership interest in the Palladium Partnership and a 60% partnership interest in the Kirby Partnership, which operate two ambulatory surgery centres (the "Northstar ASCs") located in Houston. In addition, NHC manages an ambulatory surgery centre in Dallas and three pain management clinics in Houston.

The Northstar ASCs are licensed ambulatory surgery centres that provide scheduled surgical procedures in a limited number of clinical specialties, which enables them to develop routines, procedures and protocols to maximize operating efficiency and productivity while offering an enhanced healthcare experience for both surgeons and patients. The Northstar ASCs consist of The Palladium For Surgery - Houston and the Kirby Surgery Center.

Together, the Northstar ASCs have seven operating suites, three procedure or treatment rooms typically used by pain management specialists or for colonoscopies, 12 pre-operation beds, 17 post-operation or recovery beds and 108 surgeons with medical staff privileges.

The Northstar ASCs do not offer the full range of services typically found in traditional hospitals, but instead focus on certain clinical specialties, including orthopedic surgery, podiatry surgery, ear, nose and throat ("ENT"), pain management and general surgery.

Results of Operations for the Three Months Ended September 30, 2007
(in 000's of US $, except per share data)
(unaudited)

	Three Months Ended September 30, 2007
Net patient service revenue	$ 12,508
Operating expenses	
Salaries and benefits	1, 544
Drugs and supplies	852
General and administrative	1,558
Depreciation	334
Amortization	100
	4,388
Income from operations	**8,120**
Other expense (income)	433
Distributions, non-controlling interest	346
Withholding taxes	7,333
Change in fair value of other liabilities, non-controlling interest	(4,014)
Unrealized gain on foreign currency	89
State franchise tax	(36)
Other expense (income)	
	4,151
Income before income taxes and non-controlling interests	**3,969**
Income tax expense	
Current	(1)

	Three Months Ended September 30, 2007
Future	839
	838
Non-controlling interests	**2,809**
Net Income	**$ 322**
Net Income per common share (basic and diluted)	**$ 0.02**
Weighted average shares outstanding (basic and diluted)	**13,900,852**

Case and Procedure Mix of the Northstar ASCs
For the three months ended September 30, 2006 and 2007
(unaudited)

Speciality	3Q 2006 Cases	3Q 2006 Percentage of Cases	3Q 2006 Procedures	3Q 2006 Percentage of Procedures	3Q 2007 Cases	3Q 2007 Percentage of Cases	3Q 2007 Procedures	3Q 2007 Percentage of Procedures
Pain Management	1,546	58.4%	6,607	70.4%	1,481	58.3%	6,718	68.2%
Orthopaedics	565	21.4%	1,431	15.2%	485	19.1%	1,288	13.1%
Podiatry	159	6.0%	377	4.0%	167	6.6%	639	6.5%
Gastro-intestinal	176	6.5%	259	2.8%	155	6.1%	234	2.4%
General Surgery	106	4.0%	292	3.1%	98	3.9%	318	3.2%
ENT	98	3.7%	419	4.5%	153	6.0%	651	6.6%
Total	**2,650**	**100.0%**	**9,385**	**100.0%**	**2,539**	**100.0%**	**9,848**	**100.0%**

Three Months Ended September 30, 2007

For the three months ended September 30, 2007, net patient service revenues totalled $12.5 million. Total cost of operations totalled $4.4 million or 35.1% of net patient service revenues. Operating costs include salaries and benefits of $1.5 million or 12.3% of net patient service revenues, drugs and supplies of $0.9 million or 6.8% of net patient service revenues, general and administrative of $1.6 million or 12.5% of net patient service revenues and depreciation and amortization of $0.4 million or 3.5% of net patient service revenues. Distributions, non-controlling interest totalled $0.4 million, withholding tax totalled $0.3 million, unrealized gain on foreign currency exchange contracts totalled $4.0 million and change in fair value of other liabilities non-controlling interest totalled $7.3 million. Non-controlling interests amounted to $2.8 million based on net income before taxes and non-controlling interest of $4.0 million.

As indicated in the notes to the financial statements for the Palladium Partnership and the Kirby Partnership included in the Company's final prospectus, net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. The amounts actually collected by the Company from third-party payors, including private insurers, are variable, even for identical procedures. Additional factors in the determination of net patient service revenues are the Company's payor mix, as between private health insurance plans, workers' compensation, government payor plans and directly from patients, and changing reimbursement practices of such payors. Management focuses on the optimization of the payor mix, which varies from period to period in the ordinary course. Management reviews and evaluates historical payment data, payor mix and current economic conditions on a periodic basis and adjusts the estimated collections as a percentage of gross billings (which are used to determine net patient service revenues) as required in subsequent periods based on final settlements and collections.

In the third quarter of 2007, the Company introduced new reporting and trending software that has provided management a significantly improved method of predicting net patient service revenues. This new software identified fluctuations in historical collection percentages relative to previous estimates, causing management to revise downwards its estimated collection percentages used to calculate net patient service revenues. As a result of this change and actual collections at the Kirby Partnership, the Company reduced its third quarter 2007 net patient service revenues by $0.8 million in respect of the forty-five day period ending June 30, 2007 as a prospective change in accordance with Canadian GAAP.

The Company's new reporting and trending software also indicated that actual collections at the Kirby Partnership for the year ended December 31, 2006, the three-month period ended March 31, 2007 and the 46-day period ended May 16, 2007 (the day immediately prior to the completion of the Company's initial public offering) were lower than the reported net patient service revenues for those periods, which were based on management's estimate of collections. An application of the data generated by this software, the results of management's review of the actual collections and taking into account the shifting payor mix would have resulted in the net patient service revenues for the Kirby Partnership for such periods being $2.4 million, $1.0 million and $0.6 million lower, respectively, than the figures reported for such periods. These lower figures were offset somewhat by higher actual collections at the Palladium Partnership for the year ended December 31, 2006 and the three months ended March 31, 2007, which were $0.6 million and $0.2 million higher than the reported net patient service revenues for the Palladium Partnership for those periods, respectively. For the 46 days ended May 16, 2007, the Palladium Partnership actually collected $0.3 million less than its reported net patient service revenues for such period. Taken together, the Company's pro forma net patient service revenues for the year ended December 31, 2006, the three-month period ended March 31, 2007 and the 46-day period ended May 16, 2007 would have been $1.8 million, $0.9 million and $0.9 million lower than the reported figures for such periods had such information been available to the Company at such time, with a corresponding impact on the Company's pro forma accounts receivable at such dates.

Net patient service revenues for the three months ended September 30, 2007 increased by $1.0 million compared to the pro forma net patient service revenues for the three months ended June 30, 2007 if the $0.9 million adjustment applicable to the forty-six day period ended May 16, 2007 is deducted from the net patient service revenues for such period and if the $0.8 million adjustment applicable to the forty-five day period ending June 30, 2007 is deducted from the net patient service revenues for such period and not from the three months ended September 30, 2007. Further, net patient service revenues for the three months ended September 30, 2007 increased by $1.4 million compared to the pro forma net patient service revenues for the three months ended March 31, 2007 if the $0.9 million adjustment applicable to the three months ended March 31, 2007 is deducted from the net patient service revenues for such period and if the $0.8 million adjustment applicable to the forty-five day period ending June 30, 2007 is deducted from the net patient service revenues for such period and not from the three months ended September 30, 2007.

Total cost of operations totalled $4.4 million or 35.1% of net patient service revenues, compared with 30.0% for the forty-five day period ending June 30, 2007. This increase was due to the $0.8 million prospective net patient service revenues adjustment recorded in the three months ended September 30, 2007. General and operating expenses increased by $0.3 million during the period as compared with the pro forma three months ended June 30, 2007, as a result of increased legal and accounting expenses.

The unrealized gain on foreign currency exchange contracts of $4.0 million relates to the change for the three months ended September 30, 2007 in fair value of the five-year foreign currency exchange contracts entered into by the Company to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar for future common share dividends, as a result of the strengthening of the Canadian dollar during the period.

The $7,333 change in the fair value of other liabilities, non-controlling interest represents the change in fair value of the Class B Units of Northstar Healthcare Subco, LLC ("Northstar Subco") held by Healthcare Ventures, Ltd. ("Ventures") during the three months ended September 30, 2007 as a result of the increase in the Company's common share price during such period. This item is recorded as an expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures entitling it to request that Northstar Subco enter into good faith negotiations to purchase for cancellation all or any portion of the Class B Units of Northstar Subco held by Ventures. The price paid for such Northstar Subco Class B Units will be equal to their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Healthcare Acquisitions, L.L.C ("Northstar Acquisitions"). Northstar Acquisitions will purchase for cancellation all outstanding Class B Units of Northstar Acquisitions for a nominal amount on the date that all outstanding Class B Units of Northstar Subco have been purchased for cancellation by Northstar Subco.

Comparison of the combined operating statistics for the three-month period ended September 30, 2007 to the three-month period ended September 30, 2006

There are no financial statements for the 2006 prior period for the Company (or its subsidiaries) that can be used on a comprehensive basis for comparing the current three month period's operating results with a prior period. At the time of the Company's initial public offering, it acquired controlling interests in two distinct businesses; the Palladium Partnership and the Kirby Partnership. Historically, neither the Palladium Partnership nor the Kirby Partnership prepared quarterly financial statements. Accordingly, it is impracticable to present prior-period information on a basis consistent with the results for the three months ended September 30, 2007.

We have provided a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Palladium Partnership and the Kirby Partnership for the three- and nine-month periods ended September 30, 2007 compared with the prior year periods. Cases and procedures are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as gross billings and net patient service revenues vary by patient, insurance carrier and procedure.

A case is defined as a patient visit to the ambulatory surgery center on a specific date of service. A procedure is defined as the actual surgery or surgeries that are performed on the date of service. As a result, there may be more than a single procedure performed during a specific case.

Total cases for the three months ended September 30, 2007 were 2,539, a decrease of 111 cases or 4.2% over the 2,650 total cases in the same period in 2006. The decrease was primarily related to the Orthopaedics specialty (decrease of 80 cases) and Pain specialty (decrease of 65 cases), offset by an increase of 55 cases in the ENT specialty, primarily at the Palladium ASC. The decrease in both the Pain and Orthopaedic specialties is primarily due to a shift to more complex cases, resulting in an increase to the number of procedures per case and a shift to ENT and Podiatry specialty cases. Average collections per case are the highest for ENT, Podiatry and Orthopaedics.

Total procedures for the three months ended September 30, 2007 were 9,848, an increase of 463 procedures or 4.9% over the same period in 2006, which totalled 9,385. The increase was primarily related to the Podiatry specialty (increase of 262 procedures), ENT (increase of 232 procedures) and Pain specialty (increase of 111) as a result of shifting to more complex cases.

Results of Operations from the Inception of Operation on May 17, 2007 to September 30, 2007
(in 000's of US $, except per share data)
(unaudited)

	Period from May 17, 2007 to September 30, 2007
Net patient service revenue	$ 19,326
Operating expenses	
Salaries and benefits	2,293
Drugs and supplies	1,355
General and administrative	2,151
Depreciation	485
Amortization	151
	6,435
Income from operations	**12,891**
Other expense (income)	
Distributions, non-controlling interest	655
Withholding taxes	512
Change in fair value of other liabilities, non controlling interest	10,382

	Period from May 17, 2007 to September 30, 2007
Unrealized gain on foreign currency	(6,358)
State franchise tax	138
Other expense (income)	(45)
	5,284
Income before income taxes and non-controlling interests	**7,607**
Income tax expense	
Current	133
Future	1,249
	1,382
Non-controlling interests	**4,534**
Net Income	**$ 1,691**
Net Income per common share (basic and diluted)	**$ 0.12**
Weighted average shares outstanding (basic and diluted)	**13,647,544**

Case and Procedure Mix of the Northstar ASCs
For the nine months ended September 30, 2006 and 2007

Speciality	2006 Cases YTD	2006 Percentage of Cases YTD	2006 Procedures YTD	2006 Percentage of Procedures YTD	2007 Cases YTD	2007 Percentage of Cases YTD	2007 Procedures YTD	2007 Percentage of Procedures YTD
Pain Management	4,237	57.7%	17,904	69.8%	3,988	55.2%	17,750	65.3%
Orthopaedics	1,654	22.5%	4,186	16.4%	1,541	21.3%	4,120	15.2%
Podiatry	488	6.6%	1,166	4.6%	484	6.7%	1,701	6.3%
Gastro-intestinal	477	6.5%	690	2.7%	446	6.2%	665	2.5%
General Surgery	284	3.9%	808	3.2%	285	3.9%	892	3.3%
ENT	208	2.8%	836	3.3%	481	6.7%	2,012	7.4%
Total	**7,348**	**100.0%**	**25,590**	**100.0%**	**7,225**	**100.0%**	**27,140**	**100.0%**

From the inception of operations on May 17, 2007 to September 30, 2007

Net patient service revenues for the period from May 17, 2007 to September 30, 2007, totalled $19.3 million. Total cost of operations totalled $6.4 million or 33.3% of net patient service revenues. Operating costs include salaries and benefits of $2.3 million or 11.9% of net patient service revenues, drugs and supplies of $1.4 million or 7.0% of net patient service revenues, general and administrative of $2.2 million or 11.1% of net patient service revenues and depreciation and amortization of $0.6 million or 3.3% of net patient service revenues. Distribution, non-controlling interest totalled $0.7 million, withholding tax totalled $0.5 million, unrealized gain on foreign currency exchange contracts totalled $6.4 million and change in fair value of other liabilities, non-controlling interest totalled $10.4 million. Income tax expense totalled $1.4 million. Non-controlling interests amounted to $4.5 million based on net income before taxes and non-controlling interests of $7.6 million.

The unrealized gain on foreign currency exchange contracts of $6.4 million relates to the change for the period from May 17 to September 30, 2007 in fair value of the five-year foreign currency exchange contracts entered into by the

Company to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar for future common share dividends, as a result of the strengthening of the Canadian dollar during the period.

The $10,382 change in the fair value of other liabilities, non-controlling interest represents the change in fair value of the Class B Units of Northstar Subco held by Ventures during the period from May 17, 2007 to September 30, 2007 as a result of the increase in the Company's common share price during such period. This item is recorded as an expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures entitling it to request that Northstar Subco enter into good faith negotiations to purchase for cancellation all or any portion of the Class B Units of Northstar Subco held by Ventures. The price paid for such Class B Units of Northstar Subco will be equal to their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Acquisitions. Northstar Acquisitions will purchase for cancellation all outstanding Class B Units of Northstar Acquisitions for a nominal amount on the date that all outstanding Class B Units of Northstar Subco have been purchased for cancellation by of Northstar Subco.

Comparison of the combined operating statistics for the nine month period ended September 30, 2007 to the nine month period ended September 30, 2006

Total cases for the nine months ended September 30, 2007 were 7,225, a decrease of 123 cases or 1.7% over the same period in 2006, which were 7,348. The slight decrease was primarily related to a decrease in the Pain specialty (decrease of 249 cases) and Orthopedic specialty (decrease of 116 cases), offset by an increase in ENT cases of 273. The decrease in both the Pain and Orthopedic specialties is primarily due to a shift to more complex cases, resulting in an increase to the number of procedures per case and a shift to ENT specialty cases.

Total procedures for the nine months ended September 30, 2007 were 27,140, an increase of 1,550 procedures or 6.1% over the same period in 2006, which were 25,590. The increase was primarily related to the ENT specialty, increase of 1,176 procedures and Podiatry specialty, increase of 535 procedures, as a result of shifting to more complex cases.

Reconciliation of Net Income to EBITDA
(in 000's of US $)
(unaudited)

	Three Months Ended September 30, 2007	Period from May 17, 2007 to September 30, 2007
Net patient service revenue	$ 12,508	$ 19,326
Net income	$ 322	$ 1,691
Add:		
Depreciation	334	485
Amortization	100	151
Unrealized gain on foreign currency exchange contracts	(4,014)	(6,358)
Change in fair value of other liabilities, non-controlling interest	7,333	10,382
Income taxes	838	1,382
EBITDA net of non-controlling interests and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest	4,914	7,733
Less:	(97)	(157)
Capital expenditures		
EBITDA net of non-controlling interests and capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest	$ 4,816(1)	$ 7,576(2)

	Three Months Ended September 30, 2007	Period from May 17, 2007 to September 30, 2007
EBITDA margin net of non-controlling interests and capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest..	38.5%	39.2%

(1) Cash available to the Company to pay dividends for the three months ended September 30, 2007 is $1 greater than EBITDA net of non-controlling interest and capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest, on account of current taxes.

(2) Cash available to the Company to pay dividends for the period from May 17, 2007 to September 30, 2007 is $133 less than EBITDA net of non-controlling interest and capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest, on account of current taxes.

Inception of Operations on May 17, 2007 to September 30, 2007

EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the period from May 17, 2007 to September 30, 2007 was $7.7 million. The Company has a current policy of distributing its available cash from consolidated operations, subject to applicable laws, by way of a monthly dividend on Common Shares, after the retention of amounts considered reasonable and prudent by the Board of Directors for working capital and other purposes, including capital investment and capital reserves. Cash distributions declared in the period from May 17, 2007 to September 30, 2007 totalled $5.7 million or $0.41 (Cdn $0.448) per common share.

The Company's current monthly dividend rate of Cdn $0.10 per Common Share was established at the time of its initial public offering and was, in large part, based upon the historical results for the Northstar ASCs (adjusted for certain factors in connection with the change in capital structures, additional expense as a result of becoming a reporting issuer and synergies anticipated from the business combination).

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Liquidity refers to an entity's ability to meet its financial obligations and commitments as they become due. Management anticipates that cash flows from operations and funds provided from time to time under available credit facilities will provide the Company with sufficient liquidity to manage accounts receivable, inventory and other short-term cash requirements for the next 12 months. Management expects to have sufficient working capital to meet the Company's obligations for the remainder of 2007 and in 2008.

The Company is dependent upon cash generated from operating activities of the Northstar ASCs, which are the source of financing for its operations and for meeting its contractual obligations. A majority of the Northstar ASCs' cash flows is distributed, on a monthly basis, to the Company and holders of minority partnership interests.

Dividend declarations are determined based on monthly reviews of the Company's earnings, capital expenditures and related cash flows. The Company has adopted a policy of distributing its available cash from consolidated operations, subject to applicable law and the terms of any then existing indebtedness, by way of monthly dividends on the Common Shares, after the retention of amounts considered reasonable and prudent by the Company's board of directors for working capital and other purposes, including capital investment and capital reserves.

The Company determines the amount of its monthly dividend, based on periodic reviews of its estimated annual earning and related estimated annual cash flows.

The Company's cash flow will vary from quarter to quarter based on seasonality of the operations. Based on historical trends, net patient service revenues for the third and fourth calendar quarters typically exceed the first and second calendar quarters by 4.0% to 5.0% in aggregate.

The Company's cash flow from operations was $8.1 million and $11.1 million for the three months ended September 30, 2007 and the period since inception of May 17, 2007 to September 30, 2007, respectively. Dividends paid and distributions to non-controlling interests were $7.3 million for both the three months ended September 30, 2007 and the period since inception of May 17, 2007 to September 30, 2007. Capital expenditures were $0.1 million and $0.2 million for the three months ended September 30, 2007 and the period since inception of May 17, 2007 to September 30, 2007, respectively.

As of September 30, 2007, the Company had net working capital of $13.8 million, including cash balances of $4.6 million and accounts receivable of $12.8 million. Accounts payable, dividends payable, income tax payable and accrued liabilities totalled $4.9 million. Total assets at September 30, 2007 were $179.4 million and total long-term liabilities were $29.6 million. Cash dividends declared in the period from May 17, 2007 to September 30, 2007 totalled $5.7 million or $0.41 (Cdn $0.448) per common share.

FINANCIAL INSTRUMENTS

Foreign Exchange Forward Contracts

The Company entered into foreign currency exchange flat forward contracts (the "Forward Contracts") to manage the Company's exposure to fluctuations in the exchange rate between U.S. and Canadian currencies, which exposure arises from payment of dividends on its common shares.

As of September 30, 2007, the Company is committed to deliver approximately $1.3 million U.S. dollars monthly to the Forward Contract counterparties in exchange for approximately $1.4 million Canadian dollars at stipulated exchange rates as follows:

Contract Dates	US$ to be delivered	Cdn$ to be received	Cdn$ per US$
October 2007 – June 2012	71,496	77,845	1.0888

Changes in the fair value during each reporting period are recorded as unrealized gains (losses) in the consolidated statement of operations. It is the Company's intention to maintain these contracts in place until their scheduled maturity dates. The Company intends to maintain an ongoing hedging policy in the future having regard to the volatility in the rates of exchange between the Canadian dollar and U.S. dollar at that time.

Ventures, the promoter of the Company's initial public offering, provided collateral in the amount of $5.0 million to secure performance under these contracts.

RELATED PARTY TRANSACTIONS

Physicians who represent the non-controlling interests in the Northstar Partnerships, routinely provide independent professional services directly to patients utilizing the Northstar ASCs.

Ventures holds all of the Class B Units of Northstar Acquisitions. Each Northstar Acquisitions Class B Unit entitles Ventures to receive monthly distributions of cash from Northstar Acquisitions equal to a specified percentage of Northstar Acquisitions' gross management fee revenues (including management fees earned for services earned under the Management and Cost Sharing Agreements with the Northstar ASCs and the other facilities managed by Northstar Acquisitions), payable after all distributions have been made to the holders of Northstar Acquisitions Preferred Units and Northstar Acquisitions Class A Units.

Ventures also holds all of the Class B Units of Northstar Subco. Each Northstar Subco Class B Unit entitles Ventures to receive monthly distributions of cash from Northstar Subco on a *pari passu* basis with the holders of the Northstar Subco Class A Units, except if the Company's cash available to pay dividends for any month is less than

110% of the aggregate initial full monthly dividend, Ventures' distribution from Northstar Subco shall be deferred by the amount of any such shortfall.

Ventures has provided a $5.0 million revolving credit facility to the Company. The credit facility will bear interest at the 30 day LIBOR plus 300 basis points payable monthly. In addition, the Company has accrued a one-time commitment fee equal to 0.5% of the full amount of the credit facility, and will pay a fee equal to 0.25% per annum on all amounts not drawn on the credit facility which remain undrawn. To date, no amounts have been drawn on the credit facility.

Ventures has also provided cash collateral of $5.0 million as required to support the foreign currency arrangement. Ventures has received a fee equal to 1.0% of the amount of cash collateral provided at the closing of the Company's initial public offering. The cash collateral shall remain the property of Ventures and all income earned thereon, shall be for the benefit of Ventures.

Included in accrued liabilities and other current liabilities is $0.5 million related to the subordination of a portion of Northstar Subco's prior monthly distributions to Ventures, the Northstar Subco distribution to Ventures in respect of September 2007 that was paid in October 2007 and certain revolving credit facility fees.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ form those estimates.

Management estimates are required with respect to the valuation of financial instruments, acquired assets and liabilities, intangible assets, goodwill, accounts receivable, inventories and provisions for potential liabilities, determination of net patient service revenues and income tax provisions.

Net patient service revenues of the Company includes amounts for services billed to private insurance carriers, federal and state agencies and patients. Billed revenues are recorded net of the estimated contractual adjustments provided for under the various agreements with the majority of these third party payors. Management establishes the contractual allowance adjustments and allowances for doubtful accounts based on historical payment data, current economic conditions and other pertinent facts for each Northstar ASC. Management reviews and evaluates historical payment data and current economic conditions on a quarterly basis and adjusts its estimates as appropriate.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Internal Controls over Financial Reporting ("ICOFR")

Disclosure controls and procedures within the Company are designed to provide reasonable assurance that all relevant information required to be disclosed in its annual and interim filings and other reports is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Northstar management.

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer and Corporate Secretary ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures to provide reasonable assurance that all relevant information required to be disclosed is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure. It should be noted that while the CEO and CFO believe that disclosure controls and procedures can provide a reasonable level of assurance and they are effective, they do not expect that disclosure controls and procedures can prevent all errors and fraud. A control system, no matter how well designed or operated can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP focusing in particular on controls over information. Management is responsible for establishing and maintaining adequate internal controls over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute assurance that the objectives of the control system are met. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. These weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected on a timely basis.

The Company has not fully completed its review and evaluation of the design of internal controls over financial reporting as envisioned under multilateral instrument 52-109. The Company expects to complete its assessment in fiscal 2008. Common with many small businesses, such as the Northstar Partnerships, lack of segregation of duties, weakness in control environment and IT general control processes were identified as areas where weakness existed. The existence of these weaknesses is to be compensated for by senior management monitoring. The Company is taking steps to augment and improve the design of procedures and controls impacting these areas of weakness over internal controls over financial reporting.

There has been no change in the design of the Company's internal control over financial reporting during the period from inception of operations on May 17, 2007 to September 30, 2007 that would materially affect or are reasonably likely to materially affect the Company's internal control over financial reporting other than the introduction of new reporting and trending software in the third quarter of 2007 described under "Three Months Ended September 30, 2007".

Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to market risks arising from adverse changes in interest rates and the C$/US$ foreign currency exchange rate. Market risk is defined for these purposes as the potential change in the fair market value of financial assets and liabilities resulting from an adverse movement in these rates.

We are exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar because the anticipated dividends by the Company will be paid in U.S. dollars and the dividends will be paid in Canadian dollars. In order to minimize the impact of fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar, we have entered into Canadian dollar/U.S. dollar exchange contracts at a rate $1.0888 for the total amount anticipated for dividends to common shareholders. The agreement consists of 60 monthly forward foreign exchange contracts, of which 56 all still open as of September 30, 2007.

At September 30, 2007, we had unrealized foreign exchange gains on the open forward currency exchange contracts totalling $6.4 million. If the Company had liquidated the contracts and realized a gain, it would be exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar with respect to the dividends to the Common Shareholders.

Risk Factors

Please refer to the risk factors articulated in the final prospectus dated May 9, 2007 for a list of the significant risk factors to which the Company is exposed.

OUTSTANDING SHARE DATA

At September 30, 2007, the Company had 13,900,852 common shares outstanding.

OUTLOOK

The Company continues its focus on providing high quality health care services, enhancing the experience of patients and offering expanded and new services. Management believes the Company will continue to benefit from the increasing demand for healthcare services in the United States, which continues to be positively impacted by changing demographics (increasing average age and life expectancy), and advances in science and technology.

Nonetheless, there will continue to be industry-wide pressures on reimbursement programs to limit the escalation in healthcare costs.

The Company is currently implementing a number of growth strategy initiatives to enhance the performance and organic growth at each of the Northstar ASCs.

As part of an ongoing effort to streamline operations at its ASCs, Northstar has implemented a new company-wide coding system for surgical procedures, which enables the Company to provide surgeons with improved benchmarking for analysis of their financial performance. This will assist our surgeons in improving their operative reports, enabling them to maximize available reimbursement.

The Northstar ASCs added seventeen new surgeons to its medical staff during the three months ended September 30, 2007, an increase of 18.7% over the period ended June 30, 2007. In addition, the Palladium Partnership expects to increase its complement of surgeon partners by Q1 2008, contributing to increased revenues and profitability.

The availability of enhanced technology has enabling the Company to more effectively and timely, identify shifts in payor mix that can impact financial performance. This information will assist the Company in monitoring and improving the payor mix by more closely scrutinizing payor details on potential surgical procedures.

The Palladium Partnership is in the preliminary stages of partnering with a prominent neurosurgeon to develop a minimally invasive spine surgery program. In addition, the Kirby Partnership is developing a similar relationship with an orthopedic spine surgeon. These programs are designed to capitalize on the U.S. federal government's recent approval of such procedures in ASCs. Management also intends to develop a comprehensive marketing plan to promote the participation by the Northstar ASCs in this developing profitable market niche.

As a result of the success of the Sinus program at the Palladium Partnership, management is developing a plan to implement a similar program at the Kirby Partnership. Sinus procedures represent high reimbursing cases. The Company is partnering with each Northstar ASC's ENT surgeons to co-market the program to the general public and referring physicians. Management expects the program to begin Q1 2008 at the Kirby Partnership.

In an effort to introduce new programs into the Northstar ASCs while maximizing returns and minimizing capital expenditures, the Company has undertaken an analysis of its physical plant to ensure the Company has sufficient capacity to accommodate anticipated growth in procedures.

The Company intends to continue its strategies of enhancing the operating efficiency of the Northstar ASCs, pursuing acquisitions and continuing the cash distribution practices referred to in Liquidity, Capital Resources and Financial Condition section of this MD&A.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the interim financial statements for the period from inception of operations on May 17, 2007 to September 30, 2007 and the three months ended September 30, 2007, is available on SEDAR at www.sedar.com.

November 14, 2007