

Consolidated Financial Statements of



NORTHSTAR HEALTHCARE

NORTHSTAR HEALTHCARE INC.

For the Three and Six Months ended June 30, 2008

(Unaudited)

Northstar Healthcare Inc.
Consolidated Financial Statements

June 30, 2008

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NORTHSTAR HEALTHCARE INC.
Interim Consolidated Balance Sheets
(in thousands of U.S. dollars)

	June 30, 2008	December 31,
	(Unaudited)	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,161	\$ 4,983
Accounts receivable.....	11,888	13,861
Medical supplies	563	507
Income tax recoverable.....	377	-
Prepaid expenses and other current assets	1,035	668
	<u>18,024</u>	<u>20,019</u>
Long term		
Property and equipment (Note 6)	5,126	5,561
Foreign currency exchange contracts (Note 7)	3,526	5,467
Intangible assets (Note 8)	8,866	9,076
Goodwill (Note 3).....	139,443	139,443
Other assets.....	42	43
	<u>157,003</u>	<u>159,590</u>
Total assets	<u>\$ 175,027</u>	<u>\$ 179,609</u>
LIABILITIES		
Current liabilities:		
Accounts payable.....	\$ 630	\$ 1,075
Accrued liabilities and other current liabilities (Note 9).....	2,622	2,653
Dividends payable	1,365	1,402
Income tax payable.....	-	227
	<u>4,617</u>	<u>5,357</u>
Future income tax liability (Note 10)	4,974	3,991
Other liabilities, non-controlling interest (Note 11)	27,400	28,200
	<u>32,374</u>	<u>32,191</u>
Total liabilities	<u>36,991</u>	<u>37,548</u>
Non-controlling interests (Note 12).....	8,587	9,394
	<u>8,587</u>	<u>9,394</u>
Shareholders' equity		
Share capital (Note 13).....	139,718	139,718
Contributed surplus (Note 16).....	91	-
Deficit.....	(10,360)	(7,051)
	<u>129,449</u>	<u>132,667</u>
Total shareholders' equity	<u>129,449</u>	<u>132,667</u>
Total liabilities and shareholders' equity	<u>\$ 175,027</u>	<u>\$ 179,609</u>

The accompanying notes are an integral part of the consolidated financial statements.

NORTHSTAR HEALTHCARE INC.

Interim Consolidated Statements of Operations and Comprehensive Income (in thousands of U.S. dollars, except per share amounts) (Unaudited)

	Three Months Ended June 30, 2008	Period from May 17, 2007 to June 30, 2007	Six Months Ended June 30, 2008	Period from May 17, 2007 to June 30, 2007
Net patient service revenue	\$ 10,926	\$ 6,818	\$ 21,879	\$ 6,818
Operating expenses				
Salaries and benefits.....	1,658	749	3,195	749
Drugs and supplies	939	503	1,811	503
General and administrative.....	1,905	592	3,710	592
Depreciation and amortization	447	202	886	202
	<u>4,949</u>	<u>2,046</u>	<u>9,602</u>	<u>2,046</u>
Income from operations	5,977	4,772	12,277	4,772
Other expense (income)				
Distributions, other liabilities, non-controlling interest (Note 11).....	435	222	862	222
Withholding taxes	345	167	691	167
Change in fair value, other liabilities, non-controlling interest (Note 11)	500	3,050	(800)	3,050
(Gain) loss on foreign currency.....	(1,600)	(2,344)	1,245	(2,344)
State franchise tax	69	49	143	49
Other income.....	(18)	(9)	(48)	(9)
	<u>(269)</u>	<u>1,135</u>	<u>2,093</u>	<u>1,135</u>
Income before income taxes and non-controlling interests	6,246	3,637	10,184	3,637
Income tax expense (Note 10)				
Current	(171)	133	(329)	133
Future	1,291	410	983	410
	<u>1,120</u>	<u>543</u>	<u>654</u>	<u>543</u>
Non-controlling interests (Note 12)	2,236	1,725	4,538	1,725
Net income and comprehensive income	\$ 2,890	\$ 1,369	\$ 4,992	\$ 1,369
Net income per common share (basic and fully diluted).....	\$ 0.21	\$ 0.10	\$ 0.36	\$ 0.10
Weighted average shares outstanding (basic and fully diluted).....	13,900,852	13,117,899	13,900,852	13,117,899

The accompanying notes are an integral part of the consolidated financial statements.

NORTHSTAR HEALTHCARE INC.
Consolidated Statements of Deficit
(in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended June 30, 2008	Period from May 17, 2007 to June 30, 2007	Six Months Ended June 30, 2008	Period from May 17, 2007 to June 30, 2007
Deficit, beginning of period	\$ (9,108)	\$ -	\$ (7,051)	\$ -
Net income	2,890	1,369	4,992	1,369
Dividends	(4,142)	(1,890)	(8,301)	(1,890)
Deficit, end of period	<u>\$ (10,360)</u>	<u>\$ (521)</u>	<u>\$ (10,360)</u>	<u>\$ (521)</u>

The accompanying notes are an integral part of the consolidated financial statements.

NORTHSTAR HEALTHCARE INC.

Consolidated Statement of Cash Flows

(in thousands of U.S. dollars)

For the three and six months ended June 30, 2008

(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:	Three Months Ended June 30, 2008	Period from May 17, 2007 to June 30, 2007	Six Months Ended June 30, 2008	Period from May 17, 2007 to June 30, 2007
Net income	\$ 2,890	\$ 1,369	\$ 4,992	\$ 1,369
Adjustments to reconcile net income to net cash provided by operating activities:				
Share unit plan compensation expense	18	-	91	-
Depreciation and amortization	447	202	886	202
Future income tax expense	1,291	543	983	543
(Gain) loss on foreign currency exchange contracts	(1,315)	(2,344)	1,941	(2,344)
Non-controlling interests	2,236	1,725	4,538	1,725
Change in fair value of other liabilities, non-controlling interest	500	3,050	(800)	3,050
Changes in operating assets and liabilities	536	(1,575)	471	(1,575)
Cash flows provided by operating activities.....	6,603	2,970	13,102	2,970
CASH FLOWS FROM INVESTING ACTIVITIES:				
Business acquisition, net of cash acquired of \$999	-	(138,719)	-	(138,719)
Purchase of property and equipment	(161)	(59)	(241)	(59)
Cash flows used in investing activities	(161)	(138,778)	(241)	(138,778)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Initial public offering and over-allotment proceeds of common shares, net of expenses	-	139,718	-	139,718
Distributions to non-controlling interest	(2,763)	-	(5,345)	-
Dividends paid.....	(3,830)	-	(7,660)	-
Realized foreign exchange gain on dividends paid	(299)	-	(678)	-
Cash flows provided used financing activities.....	(6,892)	139,718	(13,683)	139,718
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(450)	3,910	(822)	3,910
CASH AND CASH EQUIVALENTS, beginning of period	4,611	-	4,983	-
CASH AND CASH EQUIVALENTS, end of period.....	\$ 4,161	\$ 3,910	\$ 4,161	\$ 3,910

Supplemental cash flow information

Cash paid for income taxes.....	\$ 423	\$ -	\$ 698	\$ -
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The accompanying notes are an integral part of the consolidated financial statements.

NORTHSTAR HEALTHCARE INC.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, unless otherwise indicated)
For the three and six months ended June 30, 2008
(Unaudited)

References in these financial statements to “we” and “our” are to Northstar Healthcare Inc. (the “Company” or “NHC”) and its subsidiaries as applicable. The Company was incorporated under the *Business Corporations Act* (British Columbia) on March 16, 2007 and commenced operations following the completion of its initial public offering on May 17, 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 for Surgery–Houston, L.P. (the “Palladium Partnership”) and a 60% partnership interest in Medical Ambulatory Surgical Suites, L.P. (the “Kirby Partnership” and together with the Palladium Partnership, the “Northstar Partnerships”), 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.

Note 1. Significant Accounting Policies and Practices

The consolidated financial statements of the Company are prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). The Company’s functional and reporting currency is U.S. dollars, therefore all amounts are in U.S. dollars, unless otherwise noted.

(a) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. We consolidate when we can exercise control over operations and policies of an entity. When we consolidate, we combine the accounts of our subsidiaries with our accounts, and eliminate intercompany balances and transactions.

(b) Use of Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Retroactively calculated third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on final settlements and collections.

(c) Foreign Exchange

We pay all cash dividends to common shareholders in Canadian dollars, but the Company’s revenues and cash flows are generated in the United States. Therefore we are subject to foreign exchange exposure. We use foreign currency forward contracts to manage the foreign currency fluctuations related to the payment of cash dividends to common shareholders. However, our ability to extend or renegotiate these contracts as necessary depends on our future operating performance and cash flows, which are subject to economic conditions, interest rate levels and financial, competitive, business and other factors, many of which are beyond our control.

NORTHSTAR HEALTHCARE INC.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, unless otherwise indicated)
For the three and six months ended June 30, 2008
(Unaudited)

Note 1. Significant Accounting Policies and Practices (continued)

The consolidated financial statements have been prepared in U.S. dollars. From time to time assets and liabilities may be denominated in foreign currency and, if so, will be translated at the exchange rate in effect at the balance sheet date, with resulting gains or losses included in net income.

Dividend distributions of the Company are announced monthly, with the date of record generally falling on the last day of the calendar month. At the date of record, the Company records a liability based on the amount of U.S. dollars required to pay the declared dividends using the Canadian to U.S. dollar foreign exchange spot rate. The difference between the spot rate and the exchange rate under the Company's currency instruments is recognized in gain or loss on foreign currency. For the three and six months ended June 30, 2008, we recognized gains on foreign currency exchange of \$0.3 million and \$0.7 million, respectively. There were no gains recognized for the 45 day period ended June 30, 2007.

(d) Cash and Cash Equivalents

We maintain our cash in bank deposit accounts that at times, may exceed U.S. and Canadian federally insured limits. We have not experienced any losses in such accounts, and we believe we are not exposed to any significant credit risks on cash equivalents.

For purposes of balance sheet presentation and reporting our cash flows, we define cash equivalents as highly liquid investments that mature in three months or less from the date of purchase.

(e) Accounts Receivable

On a periodic basis, we evaluate our accounts receivables based on the history of past write-offs and collections and current credit conditions and adjust the carrying value accordingly. An account is written off when it is determined that all collection efforts have been exhausted. The Company does not accrue finance or interest charges.

(f) Medical Supplies

Medical supplies consist of various surgical supplies and medications and are valued at the lower of cost and net realizable value on the first-in, first-out method. The Company had no write-down or reversals of write-down for medical supplies for the three and six months ended June 30, 2008.

(g) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives of the related assets. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease. Maintenance and repairs are charged to operations when incurred.

NORTHSTAR HEALTHCARE INC.
Notes to Consolidated Financial Statements
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For the three and six months ended June 30, 2008
(Unaudited)

Note 1. Significant Accounting Policies and Practices (continued)

The estimated useful lives for depreciation and amortization purposes are:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Telephone equipment.....	7 Years
Computer hardware	5 Years
Computer software.....	3 – 5 years
Furniture and office equipment.....	7 Years
Medical equipment	5 Years
Leasehold improvements	Over the lease term

(h) Goodwill and Indefinite Life Intangibles

Goodwill represents the difference between the price we paid for our interests in the Northstar Partnerships, using the purchase method of accounting, and the fair value of the net tangible assets and identifiable intangible assets we acquired. We test goodwill for impairment at least annually, utilizing several testing methods.

Indefinite life intangibles assets represent the fair value of Medicare licenses that we obtained when we acquired our interests in the Northstar Partnerships. Medicare licenses are an indefinite life intangible asset, thus not amortizable.

When evaluating whether goodwill and indefinite life intangibles are impaired, we compare the fair value of the reporting units to its carrying amount, including goodwill and indefinite life intangibles. If the carrying amount exceeds the fair value, then the amount of the impairment loss must be measured. The amount of an impairment loss is calculated by comparing the implied fair value of goodwill and indefinite life intangibles to their carrying value.

(i) Intangible Assets

Intangible assets include the value of non-compete agreements and are amortized on a straight line basis over their estimated life of two years.

(j) Asset Impairment

We monitor events and changes in circumstances which may require us to review the carrying value of our property and equipment and intangible assets. We assess impairment of our property and equipment and intangible assets based on estimated undiscounted future operating cash flows.

We measure impairment, if any, by comparing the carrying value of an asset to its fair value. We recognize an impairment loss if the carrying value exceeds the fair value.

The evaluation of asset impairment requires us to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment, and actual results may differ from assumed and estimated amounts.

NORTHSTAR HEALTHCARE INC.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, unless otherwise indicated)
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(Unaudited)

Note 1. Significant Accounting Policies and Practices (continued)

(k) Net Patient Service Revenue

Net patient service revenue is 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. An additional factor in the determination of net patient service revenues is the Company's payor mix, as between private health insurance plans, workers' compensation, directly from patients and from government payor plans. 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 revenue) as required in subsequent periods based on final settlements and collections.

We monitor historical collections and market conditions to report the effects of a change in estimates. Revenue is recognized upon the performance of the patient service.

(l) Management Fees Revenue

Revenue from management fees represents fees charged to the managed centers, based on a percent of collections, for managing the center's business operations. The management agreements provide for a management fee of 10% of collected revenues. Management fees revenue is revenue earned for services under the Management and Cost Sharing Agreements between Northstar Acquisitions and both of the Northstar Partnerships and for services provided to other clients of Northstar Acquisitions. The Company provides management services to the Palladium for Surgery - Dallas and River Oaks Pain Management (the "Managed Centers"). The Palladium for Surgery - Dallas is located in Dallas, Texas and began operations in 2005. River Oaks Pain Management consists of three pain management clinics located in Houston, Humble and Baytown, Texas.

(m) Income Taxes

We use the asset and liability method to account for income taxes. Under the asset and liability method future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax basis.

We measure future income tax assets and liabilities using income tax rates that we expect to apply to taxable income in the years when we expect those differences to be recovered or settled. We recognize the effect of a change in tax rates on future income tax assets and liabilities in income in the period that the rate change is effective.

We establish valuation allowances when necessary to reduce future income tax assets to the amount that is more likely than not to be realized.

(n) Net Income Per Common Share

We calculate net income per Common Share by dividing net income available for common shareholders by the weighted average number of common shares outstanding during the period. Fully diluted income per share is computed using the weighted average number of common and potential common shares outstanding during the year.

NORTHSTAR HEALTHCARE INC.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, unless otherwise indicated)
For the three and six months ended June 30, 2008
(Unaudited)

Note 1. Significant Accounting Policies and Practices (continued)

(o) Deferred Share Unit Plan

We maintain a Deferred Share Unit Plan (“DSUs”) as compensation for independent members of the Board of Directors. Each Director, in addition to allocated DSUs, may receive any or all of their retainer fees in DSUs under the plan. Effective June 5, 2008, these units can be settled in cash or common shares at the discretion of the board. As such they are accounted for as equity instruments in the period in which the DSU’s are granted. Previously as the units were to be settled in cash, they were accounted for as liabilities and marked-to-market on each reporting date with changes in market value being charged to operations. In addition, we recognize the dividend treatment of the DSU plan as an expense.

(p) Restricted Share Unit Plan

We maintain a Restricted Share Unit Plan (“RSUs”) for employees. RSUs may be granted to employees of Northstar Acquisitions at the sole discretion of the Board. As these units can be settled in cash or common shares, they are accounted for as equity instruments with the resulting expense recorded over the vesting period of the RSU’s. In addition, we recognize the dividend treatment of the RSU plan as an expense.

(q) Recent Accounting Pronouncements

- (i) On January 31, 2008, the CICA issued a new accounting standard: Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 replaces Handbook Section 3062 Goodwill and Other Intangible Assets and Handbook Section 3450 Research and Development Costs. Section 3064 establishes standards for recognition, measurement and disclosure of goodwill and intangible assets. This new standard will be effective for the Company in the first Quarter of 2009. The Company is currently evaluating the implications of this new standard.
- (ii) In 2008, Canada’s Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of this transition on the Company’s consolidated financial statements has not yet been determined.

Note 2. Adopting of New Accounting Standards and Developments

- (a) Effective January 1, 2008, the Company adopted two new CICA standards related to the disclosure and presentation of financial instruments. Section 3862, Financial Instruments Disclosure and Section 3863, Financial Instruments Presentation, replaced Section 3861 Financial Instruments Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentations requirements. (Note 5).
- (b) Effective January 1, 2008, the Company adopted Section 1535, “Capital Disclosures,”. This standard establishes standards for disclosing information about a Company’s capital and how it is managed in order that a user of the financial statements may evaluate the Company’s objectives, policies, and processes for managed capital (Note 4).

NORTHSTAR HEALTHCARE INC.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, unless otherwise indicated)
For the three and six months ended June 30, 2008
(Unaudited)

Note 2. Adopting of New Accounting Standards and Developments (continued)

- (c) Effective January 1, 2008, the Company adopted Section 3031, "Inventories", which is based on International Accounting Standard 2. Under the new standard, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new standard also allows the reversal of any write-downs previously recognized. (Note 1f).

Note 3. Business Acquisition

In 2007 the Company received \$139,718 in net proceeds from its initial public offering (including the over-allotment option), after deducting fees payable by NHC to the underwriters and the expenses of the offering which totalled \$13,858.

We used such net proceeds to acquire all of the Class A Units and indirectly acquire all of the Preferred Units and Common Units of Northstar Healthcare Acquisitions, L.L.C. ("Northstar Acquisitions"). All of the Class B Units of Northstar Acquisitions are held by Healthcare Ventures, Ltd. ("Ventures").

On closing of NHC's initial public offering, Northstar Acquisitions used a portion of the proceeds from the sale of its equity interests to acquire all of the Preferred Units and Class A Units of Northstar Healthcare Subco, L.L.C. ("Northstar Subco").

Northstar Subco used a portion of these proceeds to indirectly acquire a 70% partnership interest, including the general partnership interest, in the Palladium Partnership and a 60% partnership interest, including the general partnership interest, in the Kirby Partnership.

Results from operations from these acquisitions have been included in the results of operations for the period from the date of acquisition.

The acquisition was accounted for using the purchase method. The purchase price of \$139,718 was allocated to the assets and liabilities of the Northstar Partnerships as follows:

<u>Net assets acquired at fair value</u>	
Cash and cash equivalents.....	999
Accounts receivable	10,921
Medical supplies	530
Prepaid expenses and other current assets.....	1,595
Accounts payable	(874)
Accrued liabilities and other current liabilities	(2,621)
Property and equipment	6,031
Other long-term assets	15
Non-compete agreements.....	841
Medicare licenses.....	8,498
Other liabilities – non-controlling interest	(17,964)
Non-controlling interests.....	(7,696)
	<u>275</u>
Goodwill	<u>139,443</u>
	<u>\$ 139,718</u>

NORTHSTAR HEALTHCARE INC.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, unless otherwise indicated)
For the three and six months ended June 30, 2008
(Unaudited)

Note 3. Business Acquisition (continued)

In the fourth quarter of 2007, the Company completed its fair value assessment of the acquired net assets, resulting in an adjustment to current assets less current liabilities, non-controlling interests, intangibles and goodwill.

Note 4. Capital Disclosures

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its services and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity as well as the non-controlling interest and the liability non-controlling interest. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company is not subject to any externally imposed capital requirements and there was no change with respect to the overall capital risk management strategy during the three and six months ended June 30, 2008.

Note 5. Financial Instruments Disclosure Presentation

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Cash and cash equivalents; held for trading carried at fair value
- Accounts receivable; loans and receivable carried at amortized cost
- Accounts payable, accrued liabilities and other liabilities; other liabilities carried at amortized cost
- Foreign currency exchange contracts; derivative carried at fair value
- Dividends payable; other liabilities carried at amortized cost
- Other liabilities, non-controlling interest; other liability carried at redemption amount

NORTHSTAR HEALTHCARE INC.
Notes to Consolidated Financial Statements
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For the three and six months ended June 30, 2008
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Note 5. Financial Instruments Disclosure Presentation (continued)

Financial instruments - risk management

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price risk
- Liquidity risk

Credit risk

Credit risk is the risk of financial loss to the Company if a patient or insurance company fails to meet its contractual obligations. The Company is mainly exposed to credit risk from insurance companies and other third-party payors. It is Company policy, implemented locally, to assess the credit risk of new patients before a procedure is conducted.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted. The Company does not enter into derivatives to manage credit risk.

Market risk

Market risk arises from the Company's use of foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Foreign exchange risk

Foreign exchange risk arises because the Company has operations located in the United States and pays their monthly dividends in Canadian Dollars.

The Company has entered into foreign currency exchange contracts to hedge the Company's exposure to fluctuations in the exchange rate between U.S. and Canadian currencies, which arises from the payment of dividends on its common shares. The Company recognizes gain or loss from any differences between the Canadian to US dollar foreign exchange spot rate and the exchange rate under the Company's currency instruments as incurred.

As of June 30, 2008, the Company is committed to deliver approximately \$1.3 million monthly in exchange for approximately C\$1.4 million for the contract period of July 2008 to June 2012, \$1.4 million monthly in exchange for approximately C\$1.4 million for the contract period of July 2012 to June 2013 at stipulated exchange rates.

The effect of a 2.0% strengthening of the Canadian Dollar against the U.S. Dollar, as of June 30, 2008, on the forward currency swaps carried at that date would, all other variables held constant, have resulted in an increase in pre-tax profit for the year and increase in net assets of \$1.5 million. A 2.0% weakening in the exchange rate would, on the same basis, have decreased pre-tax profit and decreased net assets by \$1.5 million. The Company is also exposed to currency risk on purchases made from vendors based in Canada. As of June 30, 2008, the Company had trade payables of \$0.1 million denominated in Canadian Dollars.

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For the three and six months ended June 30, 2008
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Note 5. Financial Instruments Disclosure Presentation (continued)

General objectives, policies and processes

The Board has overall responsibility for the determination of the Company's risk management objectives and polices related to financial instruments and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives reports from the Company's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

Liquidity risk

Liquidity risk arises from the Company's management of working capital. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's objective is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements.

The liquidity risk of the Company and its subsidiaries is managed centrally by the Company's finance function. This enables the Company's cash requirements to be anticipated.

Note 6. Property and Equipment

Item	June 30, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Telephone equipment	\$ 26	\$ 8	\$ 18
Computer hardware	164	45	119
Computer software	119	57	62
Furniture and office equipment	219	50	169
Medical equipment	3,424	929	2,495
Leasehold improvements	2,666	403	2,263
Totals	<u>\$ 6,618</u>	<u>\$ 1,492</u>	<u>\$ 5,126</u>

The depreciation expense charged to operations was \$0.3 million and \$0.7 million for the three and six months ended June 30, 2008, respectively.

Item	December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Telephone equipment	\$ 26	\$ 6	\$ 20
Computer hardware	160	24	136
Computer software	119	33	86
Furniture and office equipment	194	27	167
Medical equipment	3,212	503	2,709
Leasehold improvements	2,666	223	2,443
Totals	<u>\$ 6,377</u>	<u>\$ 816</u>	<u>\$ 5,561</u>

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Note 6. Property and Equipment (continued)

The comparative values for property and equipment as of December 31, 2007 were revised to be consistent with current allocations with no impact on Net Book Value.

Note 7. Foreign Currency Contracts, Reporting Currency and Foreign Currency Translation

The Company entered into foreign currency exchange contracts to manage the Company's exposure to fluctuations in the exchange rate between U.S. and Canadian currencies, which arise from the payment of dividends on its Common Shares.

As of June 30, 2008, the Company is committed to deliver approximately \$1.3 million monthly in exchange for approximately C\$1.4 million for the contract period of July 2008 to June 2012 and \$1.4 million monthly in exchange for approximately C\$1.4 million for the contract period of July 2012 to June 2013, at stipulated exchange rates as follows:

Contract Dates	US\$ to be delivered	Cdn\$ to be received	Cdn\$ per US\$
July 2008 – June 2012	61,282	66,724	1.0888
July 2012 – December 2012	8,476	8,341	0.9840
January 2013 – June 2013	8,338	8,341	1.0003

The fair value of the Company's foreign currency contracts was \$3.5 million at June 30, 2008 and \$5.5 million at December 31, 2007. Changes in the fair value during each reporting period are recorded as loss or gain on foreign currency in the consolidated statement of operations.

Ventures has provided collateral in the amount of \$5.0 million to secure performance under these contracts. At the date of record, the Company records a liability based on the amount of U.S. funds required to pay the declared distribution using the Canadian to U.S. dollar foreign exchange spot rate then in effect. When the dividend is paid, the difference between the Canadian to U.S. dollar foreign exchange spot rate and the exchange rate under the Company's currency instruments is recognized in loss or gain on foreign currency. The gain recognized was \$0.3 million and \$0.6 million for the three and six months ended June 30, 2008, respectively. There were no gains or losses recognized for the 45 day period ended June 30, 2007.

Note 8. Intangible Assets

	June 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Intangible assets			
Medicare licenses	\$ 8,498	\$ -	\$ 8,498
Non-compete agreements	841	473	368
Totals	\$ 9,339	\$ 473	\$ 8,866

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Note 8. Intangible Assets (continued)

Intangible assets	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Medicare licenses	\$ 8,498	\$ -	\$ 8,498
Non-compete agreements	841	263	578
Totals	\$ 9,339	\$ 263	\$ 9,076

Intangible Assets represent the fair value of the assets that we obtained when we acquired our interests in the Northstar Partnerships. Intangible assets include the value of Medicare licenses and non-compete agreements. Medicare licenses are an indefinite life intangible asset, thus not amortizable. The non-compete agreements are amortized over their estimated useful life of two years. Amortization for the period was \$0.1 million and \$0.2 million for the three and six months ended June 30, 2008, respectively. Amortization for the 45 day period ending June 30, 2007 was \$51.

Note 9. Related Parties

Physicians, who hold a non-controlling interest in the Northstar Partnerships, routinely provide independent professional services directly to patients utilizing the Northstar ASCs (See Note 12). In addition, Donald Kramer, M.D., NHC's Chief Executive Officer owns approximately 18.0% of the Palladium Partnership.

Donald Kramer, M.D., is the sole limited partner of Ventures. Ventures holds all of the Northstar Acquisitions L.L.C. ("Acquisitions") Class B Units. Each Acquisitions Class B Unit entitles Ventures to receive monthly distributions of cash from 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 Agreement between Acquisitions and the Northstar Partnerships and for services provided to other clients of Acquisitions), payable after all distributions have been made to the holders of Acquisitions Preferred Units and Acquisitions Class A Units. The specified percentage is currently equal to 12.5% and will decrease if Ventures disposes of Acquisitions Class B Units pursuant to its negotiation right (See Note 11).

Ventures also holds all of the Northstar Subco ("Subco") Class B Units. Each Subco Class B Unit entitles Ventures to receive monthly distributions of cash from Subco on a *pari passu* basis with the holders of the Subco Class A Units, except if the Company's cash available to pay dividends for any month is less than 110% of the initial full monthly dividend, Ventures' distribution from Subco shall be deferred by the amount of any shortfall.

Ventures has provided a \$5.0 million revolving credit facility to the Company. The credit facility bears 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. 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 closing of the initial public offering on May 17, 2007. The cash collateral shall remain the property of Ventures and all income earned thereon shall be for the benefit of Ventures.

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Note 9. Related Parties (continued)

Included in accrued liabilities and other current liabilities as of June 30, 2008 is \$1.2 million related to deferred Northstar Subco monthly distributions to Ventures, compared to \$0.5 million as of December 31, 2007. The operating agreement of Subco provides that until the earlier of December 31, 2010 or an announced increase in monthly dividends by the Company, if the Company's cash available to pay dividends for any month is less than 110% of the initial full monthly dividend, Ventures' distributions from Subco shall be deferred by the shortfall. The Company's cash available to pay dividends for June, August, November, December 2007 and January, February, March, May and June 2008 was less than 110% of the initial full monthly dividends; accordingly, the payment of \$1.2 million of the distributions due to Ventures on account of its Subco Class B Units has been deferred until twelve months following the month of deferral, provided at such time the Company's 12-month trailing cash available for dividends exceeds 110% of the initial full monthly dividend.

The Company provides management services to the Palladium for Surgery - Dallas and River Oaks Pain Management (the "Managed Centers"). The Palladium for Surgery - Dallas is located in Dallas Texas and began operations in 2005. River Oaks Pain Management consists of three pain management clinics located in Houston, Humble and Baytown, Texas. The Company's CEO owns a 50% interest in River Oaks Pain Management and together with certain members of management owns 95% of The Palladium for Surgery - Dallas. The Managed Centers are managed by the Company pursuant to a management agreement. The management agreement provides for a management fee of 10% of collected revenues.

Revenue from management fees represents fees charged to the managed centers, based on a percent of collections, for managing the center's business operations. The revenue from these fees was \$0.1 million and \$0.2 million for the three and six months ended June 30, 2008, respectively, and \$0.1 million for the 45 day period ended June 30, 2007, and was included in net patient service revenue.

These transactions are measured at exchange amounts which represent the amount agreed upon by the parties.

Note 10. Income Taxes

(a) Reconciliation of Reported Income Tax Expense to Expected Income Tax Expense

The following table shows the reconciliation between income tax expense reported in our Consolidated Statements of Income and the income tax expense that would have resulted from applying the United States federal income tax rate of 35% to pre-tax income.

We have reduced our taxable income and therefore, our calculation of income tax expense, by interest expense on the Company's intercompany notes. These intercompany notes bear interest at 11.1% and are eliminated in consolidation. The interest expense on these notes was \$1.7 million and \$3.8 million for the three and six months ended June 30, 2008, respectively.

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Note 10. Income Taxes (continued)

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008	Period from May 17, 2007 to June 30, 2007
Income before income taxes and non-controlling interests.....	\$ 6,246	\$ 10,184	\$ 3,637
U.S. federal income tax rate.....	35%	35%	35%
Expected U.S. federal income tax expense.....	2,186	3,564	1,273
Permanent differences			
Intercompany note interest expense.....	(601)	(1,328)	(438)
Change in fair value of non-controlling interest.....	175	(280)	1,067
Unrealized gain on foreign currency.....	-	-	(821)
Non-controlling interest.....	(783)	(1,588)	(604)
Other.....	143	286	66
Total income taxes.....	<u>\$ 1,120</u>	<u>\$ 654</u>	<u>\$ 543</u>

(b) Future Income Tax

The table below sets forth the tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities that are reported in our Consolidated Balance Sheet.

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Future income tax liabilities:		
Goodwill.....	(3,660)	(2,034)
Intangibles.....	(80)	(44)
Gain on foreign currency.....	(1,234)	(1,913)
Net future income tax liabilities.....	<u>\$ (4,974)</u>	<u>\$ (3,991)</u>

Note 11. Other Liabilities, Non-Controlling Interest

In connection with the Company's initial public offering, Ventures has the right exercisable at any time after the second anniversary of closing of the initial public offering (but not more frequently than once in any six-month period) to request in writing that Subco enter into good faith negotiations with Ventures to purchase for cancellation all or any portion of the Subco Class B Units held by Ventures. The price paid for such Subco Class B Units will be equal to their fair market value plus the fair market value of a corresponding number of Acquisitions Class B Units. Acquisitions will purchase for cancellation all outstanding Acquisitions Class B Units for a nominal amount on the date that all outstanding Subco Class B Units have been purchased for cancellation by Subco.

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Note 11. Other Liabilities, Non-Controlling Interest (continued)

If within 60 days of receipt of the request by Ventures to purchase the Subco Class B Units, Subco; (i) does not use its best efforts to negotiate the purchase for cancellation the Subco Class B Units, or (ii) Northstar Subco has used its best efforts to negotiate the purchase and the Company fails to agree on a purchase price, or (iii) within 60 days of the request, Subco offers to purchase Subco Class B Units and such offer is accepted by Ventures, and the purchase pursuant to such offer does not close within 90 days, Ventures shall be entitled to an enhanced distribution. The enhanced distribution shall be paid to Ventures in an amount per Subco Class B unit equal to 0.1 times the distribution that otherwise would have been received in respect of such Class B Units. The enhanced distribution shall increase by 0.1 times each fiscal quarter, up to a maximum of 0.5 times (i.e. 150%) the distribution amount otherwise payable per Subco Class B Unit. The enhanced distribution will be non-cumulative and payable monthly. The enhanced distribution may only be paid to Ventures in respect of a quarter during which the Company has paid dividends on the Common Shares in an average amount equal to the greater of \$0.10 per Common Share per month and the monthly amount paid in the month preceding the start of such month.

The \$0.5 million and \$0.8 million change in the fair value of other liabilities, non-controlling interest for the three and six months ended June 30, 2008, respectively, and the \$3.0 million for the 45 day period ending June 30, 2007, was based on an external appraisal incorporating the discounted cash flow method and represents the change in fair value of the Subco Class B Units held by Ventures. This item is recorded as income of the Company under Canadian GAAP as a result of the negotiation right held by Ventures that is described above.

Note 12. Non-Controlling Interests

Non-controlling interests at June 30, 2008 represents a 30% interest in the Palladium Partnership and a 40% interest in the Kirby Partnership. Non-controlling interests also includes the Acquisitions Class B Units held by Ventures. Non-controlling interests for the three and six months ended June 30, 2008 was \$2.1 million and \$0.1 million and \$4.3 million and \$0.2 million for the physician limited partners and Ventures, respectively. Non-controlling interests for the 45-day period ending June 30, 2007 was \$1.7 million and \$40 for the physician limited partners and Ventures, respectively.

Note 13. Common Shares

On March 16, 2007, the Company was incorporated with an authorized share structure providing for an unlimited number of common shares.

On May 17, 2007, the Company issued 12,087,698 common shares for net proceeds of \$120,866 as part of its initial public offering. On June 5, 2007, the over-allotment option in respect of the offering was exercised resulting in the issuance of 1,813,154 additional common shares for net proceeds of \$18,852.

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Note 14. Lease Obligations

We lease property and certain equipment under non-cancellable operating lease arrangements, which expire at various dates through 2014. Certain leases of real property provide options to extend the lease terms. We recorded rent expense under operating leases of \$206 and \$412 for the three and six months ended June 30, 2008, respectively.

The following table summarizes our future minimum payments under existing operating leases:

Year	Amount
2008 (remaining six months)	417
2009	854
2010	867
2011	882
2012	880
Thereafter.....	751
Total.....	<u>\$ 4,651</u>

Note 15. Employee Retirement Savings Plan and Benefits

401 (k) Savings Plan

The Company has adopted a 401(k) savings plan for its employees. The plan covers substantially all employees. Under the terms of the plan, employees may contribute up to a maximum of 15%, subject to Internal Revenue Code limitations (“IRC”), of their salaries to the plan plus any catch-up contributions permitted under the IRC. The Company may match employee contributions up to 4% of the amount contributed by the employee. The Company’s matching contribution was \$29 and \$43 for the three and six months ended June 30, 2008, respectively. For the 45-day period ended June 30, 2007, the Company’s matching contribution was \$7.

Note 16. Share Unit Plans

Restricted Share Unit Plan

In February 2008, and as subsequently amended in April and June 2008, the Board approved the adoption of a Restricted Share Unit Plan for employees. Restricted Share Units (“RSUs”) may be granted to employees of Northstar Acquisitions at the sole discretion of the Board.

Subject to the Board’s ability to accelerate the vesting of the RSUs if it determines circumstances so warrant, each RSU will vest in full on the third anniversary of the date of grant; provided that if there is a change of control of the Company prior to the vesting date of the RSUs and a participant is terminated (or quits for good reason) within six months following such change of control, a pro rata portion of their unvested RSUs will vest up to the date of the change of control.

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Note 16. Share Unit Plans (continued)

Upon vesting of his or her RSUs, a participant will be entitled to receive on the vesting date, at the discretion of the Board either; (a) a lump sum cash payment equal to the number of RSUs to be redeemed multiplied by a calculation of the fair market value of a Common Share (determined by reference to the five-day weighted average closing price of the Common Shares on the Toronto Stock Exchange) on the redemption date, net of any applicable deductions and withholdings; or (b) that number of Common Shares equal to the number of RSUs credited to the participant's RSU account, such Common Shares to be issued from treasury of the Corporation. Unlike options, RSUs do not require the payment of any monetary consideration to Corporation.

Whenever cash dividends are paid on the Company's common shares, dividend equivalents in the form of additional RSUs will be credited to each Participant and will become part of his or her Award under the RSU Plan. The RSUs representing dividend equivalents will vest and be paid at the same time and in the same manner as the RSUs to which the dividend equivalents pertain.

In the event of a Participant's voluntary termination of employment voluntary or by cause with the Company prior to any vesting date, the Participant's rights to any unvested RSUs will be immediately and irrevocably forfeited.

If the Participant's employment with the Company terminates on account of death or disability or is terminated by the Company without cause prior to any Vesting Date, the Participant will become vested in a prorated portion of his or her unvested RSUs, based on the number of months that have elapsed in the then current vesting period as of the date of termination. As of June 30, 2008, two RSU grants totalling 40,000 have been granted and we recorded an expense of \$11.

Deferred Share Unit Plan

In February 2008, and as subsequently amended in June 2008, the Company adopted a Deferred Share Unit Plan for members of the Board of Directors. Each Director becomes a participant effective as of the date they are first appointed or elected as a Director, provided that they are not an employee of the Company at such time. In addition to allocated Deferred Share Units ("DSUs"), each Board of Director may receive any or all of their retainer fees in DSUs under the plan. DSUs vest immediately, but can be redeemed only when a director no longer serves on the Board.

A participant will be permitted to redeem his or her vested DSUs upon ceasing to be a director of the Company. Upon redemption of DSUs, a participant will be entitled to receive on the vesting date, at the discretion of the Board either: (a) a lump sum cash payment equal to the number of DSUs to be redeemed multiplied by a calculation of the fair market value of a Common Share (determined by reference to the five-day weighted average closing price of the Common Shares on the Toronto Stock Exchange) on the redemption date, net of any applicable deductions and withholdings; or (b) that number of Common Shares equal to the number of DSUs credited to the participant's DSU account, such Common Shares to be issued from treasury of the Company.

A participant may elect to receive any such payment in either Canadian dollars or U.S. dollars. If a Participant elects to receive such payment in U.S. dollars (or if such Participant fails to make an election), the value of such participant's Unit account, net of applicable withholdings, shall be converted into U.S. dollars using the noon buying rate on the effective date such participant ceased to be a Director, as published by the Bank of Canada on its website.

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Note 16. Share Unit Plans (continued)

The number of DSUs to be credited to a participant's DSU account related to the payment of fees will be calculated by dividing the Canadian dollar equivalent of the US dollar amount of the elected portion of the fees payable to the participant on a payment date by the weighted average closing price of the common shares during the five trading day period ending on the day prior to payment date. Whenever cash dividends are paid on the Company's common shares, additional DSUs will be credited to the participant's DSUs account.

On February 1, 2008, the Company granted 2,000 DSUs to each of their independent members of the Board of Directors. On June 1, 2008, the Company granted 1,000 DSUs to each of the two new independent directors and recorded expense of \$7 and \$80 for the three and six months ended June 30, 2008, respectively.

Share Unit Plan Amendment

Effective June 5, 2008, the Company amended both RSU and DSU plans to include settlement options in cash or common shares at the discretion of the board. Previously the DSU grants of 6,000 units were required to be settled in cash, and were accounted for as liabilities and marked-to-market at each reporting date with changes in the market value being charged to operations. As a result of the amendment, the Company reclassified \$72 previously recorded in accrued liabilities to contributed surplus during the three months ended June 30, 2008. The Company recorded expense relating to DSUs of \$7 and \$80 for the three and six months ended June 30, 2008.

On June 5, 2008, the Company granted two RSU grants totalling 40,000 units. These units were accounted for as equity instruments and the resulting expense recorded over the vesting period. For the three months ended June 30, 2008, the company recorded expense relating to RSUs of \$11. For the six months ended June 30, 2008, the balance of contributed surplus is \$91.

Note 17. Business Segment Information

We operate in one reportable business segment and one geographic location.