



NORTHSTAR HEALTHCARE

NORTHSTAR HEALTHCARE INC.

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

For the Three and Nine Months Ended September 30, 2009

The following management discussion and analysis of the financial condition and results of operations of Northstar Healthcare Inc. (the "Company" or "NHC") for the three and nine months ended September 30, 2009 is provided as of November 11, 2009. It is supplemental to, and should be read in conjunction with, the financial statements of the Company for the three and nine months ended September 30, 2009. 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 thousands of U.S. dollars, except per share data, unless otherwise indicated.

FORWARD LOOKING INFORMATION

This management's discussion and analysis ("MD&A") contains "forward-looking information" (as defined under applicable securities laws). Forward-looking information is typically identified by words such as "believe," "expect," "forecast," "anticipate," "intend," "estimate," "goal," "plan," and "project" and similar expressions of future or conditional verbs such as "will," "may," "should," "could," or "would". These statements reflect current beliefs and are based on information currently available to management.

By its very nature, forward-looking information involves significant known and unknown risks, uncertainties and assumptions. Important assumptions relating to the forward-looking information contained in this management's discussion and analysis include, but are not limited to, expansion, capital expenditures, currency risks, natural disasters, 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 information, including, without limitation, general economic conditions, general business risks inherent in the ambulatory surgical center ("ASC") industry, including changing surgeon and patient preferences, numerous federal, state and local laws, competition from other healthcare providers, payor mix and our dependence on payment from third-party payors, including private insurers, managed care organizations and government healthcare programs. For a description of risks that could cause our actual results to materially differ from our current expectations, please see the section titled "Risk Factors" in NHC's Annual Information Form, filed with Canadian securities regulators on March 30, 2009. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. 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 information. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

All forward-looking information in this MD&A is qualified by these cautionary statements. The forward-looking statements in this management's discussion and analysis are made as of the date hereof and except as required by law we do not intend, and do not assume any obligation, to update or revise these forward-looking statements.

NON-GAAP FINANCIAL MEASURES

This MD&A contains references to Adjusted EBITDA (earnings or loss before interest, taxes, depreciation and amortization, net of non-controlling interests and before unrealized gain or loss on foreign currency exchange contracts, goodwill impairment and change in fair value of other liabilities, non-controlling interest) and Adjusted EBITDA margin (Adjusted EBITDA, net of capital expenditures divided by net patient service revenue). Management believes that Adjusted EBITDA is a useful supplemental measure of cash available for dividends prior to debt service, capital expenditures, income taxes and other reserves. However, both Adjusted EBITDA and Adjusted EBITDA margin are not recognized measures under Canadian GAAP and do not have a standardized meaning prescribed by Canadian GAAP. Therefore, they may not be comparable to similar measures presented by other issuers. Investors are cautioned that Adjusted 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. At the time of the Company's initial public offering, it acquired controlling interests in two distinct business entities: The Palladium for Surgery – Houston, L.P. (the "Palladium Partnership") and Medical Ambulatory Surgical Suites, L.P. (the "Kirby Partnership" and together with the Palladium Partnership, the "Northstar Partnerships").

We have included 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 months ended September 30, 2009 compared with the prior year period. Cases performed are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as net patient service revenues vary by patient, insurance carrier and procedure.

CORPORATE OVERVIEW

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 centers in the United States, focusing initially on Houston and other metropolitan areas in Texas. NHC used the net proceeds of an initial public offering 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 center in Dallas.

The Northstar ASCs are licensed ambulatory surgery centers 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 Kirby Surgical 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 90 surgeons that performed procedures in 2009.

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009
AND FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(in 000's of US \$, except per share data)
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Net patient service revenue	\$ 6,843	\$ 9,364
Operating expenses		
Salaries and benefits.....	1,571	1,757
Drugs and supplies.....	810	913
General and administrative.....	2,413	1,938
Bad debt expense.....	264	-
Depreciation and amortization.....	303	446
	5,361	5,054
Income from operations	1,482	4,310
Other expense (income)		
Distribution, other liabilities, non-controlling interest.....	133	338
Withholding tax.....	-	305
Change in fair value of other liabilities, non-controlling interest...	-	(18,200)
(Gain)/ loss on foreign currency.....	(2,654)	2,379
Goodwill and intangible asset impairment.....	-	78,941
State franchise tax.....	49	68
Other (income).....	(3)	(17)
	(2,475)	63,814
Income (loss) before income taxes and non-controlling interest	3,957	(59,504)
Income tax expense (recovery)		
Current.....	-	702
Future.....	-	(28,588)
	-	(27,886)
Non-controlling interests	1,089	1,753
Net income (loss) and comprehensive income (loss)	\$ 2,868	\$ (33,371)
Net income (loss) per common share		
Basic.....	\$ 0.21	\$ (2.40)
Diluted.....	\$ 0.19	\$ (2.40)
Weighted average number of shares and share equivalents		
outstanding		
Basic.....	13,900,852	13,900,852
Diluted.....	15,197,500	13,952,347

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Revenue is recognized upon the performance of the patient service. 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 based on final settlements and collections.

Net patient service revenues for the three months ended September 30, 2009 totalled \$6.8 million, a decrease of \$2.5 million or 26.9%, compared to \$9.4 million for the same period in 2008. The decline was primarily due to a 29.7% decrease in case volume accompanied by an 8.9% decrease in the overall reimbursement rate for the three months ended September 30, 2009 versus the same period in 2008. The overall case volume decline was a result of a 9.3% increase from the Kirby Partnership and a 60.9% decrease from the Palladium Partnership. The 2008 case volumes were negatively affected by hurricane Ike. The decrease in the reimbursement rate is directly associated with the volume decrease in cases with higher reimbursement rates at the Palladium Partnership as a result of its collection dispute with one of its major payors, which was settled subsequent to September 30, 2009, and to a lesser extent, with another payor. In addition, the signing of an in-network contract at the Kirby Partnership on January 1, 2009 also contributed to the decline of the overall reimbursement rate. The decrease in net patient service revenues during the quarter was partially offset by \$1.3 million related to collections during the quarter of 2009 revenues that were previously not recognized.

During the three months ended September 30, 2009, after comparing historical payment data to the estimated net patient service revenues reported in 2008 and the first quarter of 2009, management determined that actual collections as of September 30, 2009 had exceeded the reported revenues (actual collections exceeded net patient services revenues recorded). As a result, the Company recorded a \$1.3 million increase to net patient service revenues and accounts receivable for the three months ended September 30, 2009. There can be no assurance that any additional recovery will occur in the future as a result of the Company's ongoing collection effort.

Salaries and benefits for the three months ended September 30, 2009 totalled \$1.6 million, which was \$0.2 million or 10.6% lower than the salaries and benefits for the three months ended September 30, 2008. The decrease was mainly attributable to a \$0.3 million decrease at the Palladium Partnership as a result of declined case volume.

Drugs and medical supplies for the three months ended September 30, 2009 were \$0.8 million, a decrease of \$0.1 million or 11.2% compared to \$0.9 million for the three months ended September 30, 2008. The decrease was attributable to the reduced case volumes, particularly in specialties with high supplies cost such as orthopaedics, at the Palladium Partnership.

General and administrative expense for the three months ended September 30, 2009 totalled \$2.4 million, which exceeded the general and administrative expense for the three months ended September 30, 2008 by \$0.5 million, or 24.5%. A decrease of \$0.5 million at the Northstar ASCs was offset by the increase in legal expenses as a result of the Company's claim against Dr. Donald Kramer and expenses for the Company's new Chief Marketing Officer, who joined the Company during the three months ended September 30, 2009.

Bad debt expense for the three months ended September 30, 2009 totalled \$0.3 million. A recovery of the \$0.4 million to the allowance previously reserved was offset by a \$0.7 million allowance reserved on cases performed by some of the non-partner surgeons operating at the Palladium- Houston surgical center under use agreements with the center. There can be no assurance that any additional recovery will occur in the future as a result of the Company's ongoing collection effort. Collection difficulties with the non-partner surgeons as well as with the third party payors for the cases performed by the non-partner surgeons were contributable to the additional allowance reserved during the three months ended September 30, 2009.

For the three months ended September 30, 2009, distributions, other liabilities, and non-controlling interest totalled \$0.1 million; gain on foreign currency exchange contracts totalled \$2.7 million; and non-controlling interests amounted to \$1.1 million, a decrease of \$0.7 million from the same period in 2008, based on percentage of minority interests owned by the physician limited partners and Healthcare Ventures Ltd. ("Ventures").

There was no change for the three months ended September 30, 2009 in the fair value of other liabilities, non-controlling interest, which represented the change in fair value of the Class B Units of Northstar Healthcare Subco, L.L.C. ("Northstar Subco") held by Ventures, compared to a gain of \$18.2 million for the three months ended September 30, 2008. Any change in fair value is recorded as an income or expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures, which entitles it to request at any time 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 from Ventures by Northstar Subco.

The \$2.7 million gain in foreign currency exchange contracts related to the change during the period in the fair value of the forty-eight month foreign currency exchange contracts entered into by the Company at the time of the Company’s initial public offering to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar relating to the Common Share dividends. On September 18, 2009, the Company closed out its position in its foreign currency exchange contracts, thereby reducing majority of its future financial risk related to changes in the value of the Canadian dollar versus the US dollar. In closing out its contracts, the Company realized a one-time cash expense of approximately \$0.3 million.

The following table summarizes the Company’s operating results as a percentage of net patient service revenues for the period indicated.

**RESULTS OF OPERATIONS AS PERCENTAGE OF NET PATIENT SERVICE REVENUES
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2008
(Unaudited)**

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Net patient service revenue	100.0%	100.0%
Operating expenses		
Salaries and benefits.....	23.0%	18.8%
Drugs and supplies.....	11.8%	9.8%
General and administrative.....	35.3%	20.7%
Bad debt expense.....	3.9%	0.0%
Depreciation and amortization.....	4.4%	4.8%
	<u>78.4%</u>	<u>54.1%</u>
Income from operations	21.6%	45.9%
Other expense (income)		
Distribution, other liabilities, non-controlling interest.....	1.9%	3.6%
Withholding tax.....	0.0%	3.3%
Change in fair value of other liabilities, non-controlling interest.....	0.0%	(194.4%)
(Gain)/ loss on foreign currency.....	(38.8%)	25.4%
Goodwill and intangible asset impairment.....	0.0%	843.0%
State franchise tax.....	0.7%	0.7%
Other income.....	0.0%	(0.2%)
	<u>(36.2%)</u>	<u>681.4%</u>
Income (loss) before income taxes and non-controlling interest	57.8%	(635.5%)
Income tax expense (recovery)		
Current.....	0.0%	7.5%
Future.....	0.0%	(305.3%)
	<u>0.0%</u>	<u>(297.8%)</u>
Non-controlling interests	15.9%	18.7%
Net income (loss) and comprehensive income (loss)	41.9%	(356.4%)

NET PATIENT SERVICE REVENUES BY PAYORS OF THE NORTHSTAR ASCS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND THE THREE MONTHS ENDED SEPTEMBER 30, 2008

Payors	Q3 2009 Net Patient Service Revenue by Payor Mix	Q3 2008 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay.....	84.8%	92.5%
Workers compensation.....	11.0%	4.3%
Medicare/Medicaid.....	2.6%	1.2%
Other.....	1.6%	2.0%
Total.....	100.0%	100.0%

Net patient service revenues represent gross revenues received from patients and third-party payors, less provisions for contractual adjustments with third-party payors, such as Medicare, Medicaid or private payors with managed care plans. Both reimbursement and net patient service revenue are the highest from patients with private insurance and other private payment sources and lowest from patients with Medicare/Medicaid. This information is not intended to provide a comprehensive comparison of financial results, as reimbursement by insurance carrier varies based on deductibles, plan coverage and procedures performed.

Net patient service revenues from private insurance and private pay payors are generally higher when a facility does not have an in-network contract with the payor. As of September 30, 2009, Northstar ASCs had one in-network contract at the Kirby Partnership with one of its key private insurance payors. This in-network contract, along with the case volume decrease at the Palladium Partnership, consequently decreased the payor mix of private insurance and other private pay groups to 84.8% for the three months ended September 30, 2009 from 92.5% for the same period in the prior year.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND THE THREE MONTHS ENDED SEPTEMBER 30, 2008

Specialty	Q3 2009 Cases	Q3 2009 Percentage of Cases	Q3 2009 Procedures	Q3 2009 Percentage of Procedures	Q3 2008 Cases	Q3 2008 Percentage of Cases	Q3 2008 Procedures	Q3 2008 Percentage of Procedures
Pain Management.....	741	47.5%	3,431	60.5%	1,065	48.0%	5,769	64.7%
Orthopaedics.....	436	27.9%	1,039	18.4%	554	25.0%	1,450	16.2%
Podiatry.....	48	3.1%	233	4.1%	139	6.3%	520	5.8%
Gastro-intestinal.....	107	6.9%	181	3.2%	208	9.4%	208	2.3%
General Surgery.....	113	7.2%	228	4.0%	107	4.7%	250	2.8%
ENT.....	116	7.4%	556	9.8%	146	6.6%	732	8.2%
Total.....	1,561	100.0%	5,668	100.0%	2,219	100.0%	8,929	100.0%

The Company has provided a number of comparative operating statistics, such as cases and procedures performed at the Northstar ASCs for the three month period ended September 30, 2009 compared with the same period in the prior year. 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, 2009 were 1,561, a decrease of 658 cases or 29.7% from the 2,219 cases in the same period in 2008. The Kirby Partnership experienced a 9.3% increase in case volume and was offset by 60.9% decrease at the Palladium Partnership. In addition, the 2008 case volumes were negatively affected by hurricane Ike. The decrease at the Palladium Partnership, as a result of its current negotiations with one of its major payors, impacted all specialties with pain management experiencing the most significant decline followed by orthopaedics and gastro-intestinal specialty.

Procedure volume for the three months ended September 30, 2009 decreased by 36.5% from 8,929 to 5,668. Since case reimbursement is based on case type, the decrease in the number of procedures per case has no effect on reimbursement and net patient service revenues per case.

**RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2009 AND THE THREE MONTHS ENDED SEPTEMBER 30, 2008**
(in 000's of US \$, except per share data)
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Net patient service revenue	\$ 6,843	\$ 9,364
Net income (loss) and comprehensive income (loss).....	<u>\$ 2,868</u>	<u>\$ (33,371)</u>
Add:		
Depreciation and amortization.....	303	446
Change in fair value of other liabilities, non-controlling interest.....	-	(18,200)
Unrealized (gain)/ loss on foreign currency exchange contracts.....	(3,023)	3,090
Goodwill and intangible asset impairment.....	-	78,941
Income tax (current & future).....	-	(27,886)
Adjusted EBITDA	<u>148</u>	<u>3,020</u>
Less:		
Capital expenditures.....	<u>(14)</u>	<u>(71)</u>
Adjusted EBITDA net of capital expenditures	<u>\$ 134</u>	<u>\$ 2,949</u>
Adjusted EBITDA margin net of capital expenditures	2.0%	31.5%

Adjusted EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the three months ended September 30, 2009 was \$0.1 million, a decrease of \$2.9 million from \$3.0 million for the same period in the prior year. The decrease was primarily attributable to \$78.9 million charge the Company took in goodwill and intangible asset impairment for the three months ended September 30, 2008. There was no change for the three months ended September 30, 2009 in the fair value of other liabilities, non-controlling interest, which represented the change in fair value of the Class B Units of Northstar Subco held by Ventures, compared to a gain of \$18.2 million for the three months ended September 30, 2008.

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**
(in 000's of US \$, except per share data)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net patient service revenue.....	\$ 18,999	\$ 31,243
Operating expenses		
Salaries and benefits.....	5,120	4,951
Drugs and supplies.....	2,459	2,724
General and administrative.....	8,260	5,648
Bad debt expense.....	814	-
Depreciation and amortization.....	1,114	1,333
	<u>17,767</u>	<u>14,656</u>
Income from operations.....	<u>1,232</u>	<u>16,587</u>
Other expense (income)		
Distribution, other liabilities, non-controlling interest.....	278	1,199
Withholding tax.....	-	996
Change in fair value of other liabilities, non-controlling interest... (Gain) / loss on foreign currency.....	-	(19,000)
	(3,892)	3,624
Goodwill and intangible asset impairment.....	-	78,941
State franchise tax.....	43	211
Other (income).....	(11)	(64)
	<u>(3,582)</u>	<u>65,907</u>
Income (loss) before income taxes and non-controlling interest.....	<u>4,814</u>	<u>(49,320)</u>
Income tax expense (recovery)		
Current.....	(685)	373
Future.....	-	(27,605)
	<u>(685)</u>	<u>(27,232)</u>
Non-controlling interests.....	2,615	6,291
Net income (loss) and comprehensive income (loss).....	<u>\$ 2,884</u>	<u>\$ (28,379)</u>
Net income (loss) per common share		
Basic.....	<u>\$ 0.21</u>	<u>\$ (2.04)</u>
Diluted.....	<u>\$ 0.20</u>	<u>\$ (2.04)</u>
Weighted average number of shares and share equivalents outstanding		
Basic.....	<u>13,900,852</u>	<u>13,900,852</u>
Diluted.....	<u>14,522,960</u>	<u>13,922,625</u>

Net patient service revenues for the nine months ended September 30, 2009 totalled \$19.0 million, compared to \$31.2 million for the nine months ended September 30, 2008, a decrease of \$12.2 million or 39.2%. The decline was primarily a result of a 27.9% decrease in case volume accompanied by a 26.5% decrease in the overall reimbursement rate for the nine months ended September 30, 2009 from the same period in 2008. The overall case volume decline was a net result of a 1.5% increase from the Kirby Partnership and a 50.9% decrease from the Palladium Partnership. The decrease in the reimbursement rate is directly associated with the volume decrease in cases with higher reimbursement rates at the Palladium Partnership as a result of its current collection dispute with

one of its major payors, which was settled subsequent to September 30, 2009, and to a lesser extent, with another payor. In addition, the signing of an in-network contract at the Kirby Partnership on January 1, 2009 also contributed to the decline of the overall reimbursement rate. The decrease in net patient service revenues during the nine months ended September 30, 2009 was partially offset by \$1.3 million related to collections during the period of 2009 revenues that were previously not recognized. There can be no assurance that any additional collection will occur in the future as a result of the Company's ongoing collection effort.

After reviewing historical payment data with the estimated net patient service revenues reported in 2008 and the first quarter of 2009 during the nine months ended September 30, 2009, management determined that actual collections as of September 30, 2009 had exceeded the reported revenues (actual collections exceed net patient services revenues recorded). The Company, as a result, recorded a \$2.9 million increase to net patient service revenues and accounts receivable for the nine months ended September 30, 2009. There can be no assurance that any additional collection will occur in the future as a result of the Company's ongoing collection effort.

Salaries and benefits for the nine months ended September 30, 2009 totalled \$5.1 million, which exceeded the salaries and benefits for the nine months ended September 30, 2008 by \$0.1 million or 3.4%. The increase was attributable to the additional salaries and benefits for employees of Northstar Acquisitions, the Company's operating subsidiary, as the management team was not fully established during the first nine months of 2008. Salaries and benefits expense for Northstar Acquisitions was \$1.6 million and \$1.0 million for the nine months ended September 30, 2009 and 2008, respectively. Furthermore, as a result of declined case volume, the Palladium Partnership experienced 24.2% or \$0.6 million decrease in salaries and benefits for the same period.

Drugs and medical supplies for the nine months ended September 30, 2009 totalled \$2.5 million, a decrease of \$0.3 million compared to \$2.7 from the nine months ended September 30, 2008. A decrease in cases with high supply costs, such as orthopaedics, general surgery and ear, nose, and throat (ENT) at the Palladium Partnership contributed to the overall decrease in drugs and medical supplies.

General and administrative expense for the nine months ended September 30, 2009 totalled \$8.3 million, which exceeded the general and administrative expense for the nine months ended September 30, 2008 by \$2.6 million, or 46.2%. The increase was attributable to the additional expenses in legal and consulting expenses and directors' and officers' compensation as a result of the Company's strategic review and the claim against Dr. Kramer.

Bad debt expense for the nine months ended September 30, 2009 totalled \$0.8 million. A recovery of the \$0.4 million was offset by a \$1.2 million allowance reserved on cases performed by some of the non-partner surgeons operating at the Palladium- Houston surgical center under use agreements with the center. There can be no assurance that any additional recovery will occur in the future as a result of the Company's ongoing collection effort. Collection difficulties with the non-partner surgeons as well as with the third party payors for the cases performed by the non-partners surgeons were contributable to the additional allowance reserved during the nine months ended September 30, 2009.

For the nine months ended September 30, 2009, distributions, other liabilities, and non-controlling interest totalled \$0.3 million; gain on foreign currency exchange contracts totalled \$3.9 million; and non-controlling interests amounted to \$2.6 million based on percentage of minority interests owned by the physician limited partners and Ventures.

There was no change for the nine months ended September 30, 2009 in the fair value of other liabilities, non-controlling interest which represented the change in fair value of the Class B Units of Northstar Subco held by Ventures. Any change is recorded as an income or expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures, which entitles it to request at any time after May 17, 2009 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 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 from Ventures by Northstar Subco.

The \$3.9 million gain in foreign currency exchange contracts related to the change during the period in the fair value of the forty-eight month foreign currency exchange contracts entered into by the Company at the time of the Company's initial public offering to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar relating to the Common Share dividends. This gain was a result of closing out the Company's entire remaining foreign exchange contracts on September 18, 2009. The Company realized a one-time cash expense of approximately \$0.3 million for the closing transaction.

The following table summarizes the Company's operating results as a percentage of net patient service revenues for the period indicated.

**RESULTS OF OPERATIONS AS PERCENTAGE OF NET PATIENT SERVICE REVENUES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND THE NINE MONTHS ENDED
SEPTEMBER 30, 2008
(Unaudited)**

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net patient service revenue	100.0%	100.0%
Operating expenses		
Salaries and benefits.....	27.0%	15.8%
Drugs and supplies.....	12.9%	8.7%
General and administrative.....	43.5%	18.1%
Bad debt expense.....	4.3%	0.0%
Depreciation and amortization.....	5.9%	4.3%
	<u>93.6%</u>	<u>46.9%</u>
Income from operations	6.4%	53.1%
Other expense (income)		
Distribution, other liabilities, non-controlling interest.....	1.5%	3.8%
Withholding tax.....	0.0%	3.2%
Change in fair value of other liabilities, non-controlling interest.....	0.0%	(60.8%)
(Gain) / loss on foreign currency.....	(20.5%)	11.6%
Goodwill and intangible asset impairment.....	0.0%	252.7%
State franchise tax.....	0.2%	0.7%
Other income.....	(0.1%)	(0.2%)
	<u>(18.9%)</u>	<u>211.0%</u>
Income (loss) before income taxes and non-controlling interest...	25.3%	(157.9%)
Income tax expense (recovery)		
Current.....	(3.6%)	1.2%
Future.....	0.0%	(88.4%)
	<u>(3.6%)</u>	<u>(87.2%)</u>
Non-controlling interests	13.8%	20.1%
Net income (loss) and comprehensive income (loss)	15.1%	(90.8%)

NET PATIENT SERVICE REVENUES BY PAYOR OF THE NORTHSTAR ASCS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2008

Payors	2009 Net Patient Service Revenue by Payor Mix	2008 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay.....	86.6%	91.5%
Workers compensation.....	8.6%	4.9%
Medicare/Medicaid.....	2.6%	1.4%
Other.....	2.2%	2.2%
Total.....	100.0%	100.0%

Net patient service revenues represent gross revenues received from patients less provisions for contractual adjustments with third-party payors, such as Medicare, Medicaid or private payors with managed care plans. Both reimbursement and net patient service revenue are the highest from patients with private insurance and other private payment sources and lowest from patients with Medicare/Medicaid. This information is not intended to provide a comprehensive comparison of financial results, as reimbursement by insurance carrier varies based on deductibles, plan coverage and procedures performed.

Net patient service revenues from private insurance and private pay payors are generally higher when a facility does not have an in-network contract with the payor. As of September 30, 2009, the Northstar ASCs had one in-network contract at the Kirby Partnership with one of its key private insurance payors. This in-network contract, along with the case volume decrease at the Palladium Partnership due to the current negotiation with one of its third party payors, consequently decreased the payor mix of private insurance and other private pay groups to 86.6% for the nine months ended September 30, 2009 from 91.5% for the same period in the prior year.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2008

Specialty	2009		2009		2008		2008	
	2009 Cases YTD	2009 Percentage of Cases YTD	2009 Procedures YTD	2009 Percentage of Procedures YTD	2008 Cases YTD	2008 Percentage of Cases YTD	2008 Procedures YTD	2008 Percentage of Procedures YTD
Pain Management.....	2,368	46.9%	11,675	61.2%	3,651	52.1%	21,023	68.2%
Orthopaedics.....	1,422	28.1%	3,584	18.7%	1,650	23.5%	4,252	13.8%
Podiatry.....	220	4.3%	1,041	5.5%	419	6.0%	1,639	5.3%
Gastro-intestinal.....	370	7.3%	584	3.1%	520	7.3%	684	2.2%
General Surgery.....	323	6.4%	674	3.5%	307	4.4%	724	2.3%
ENT.....	355	7.0%	1,532	8.0%	467	6.7%	2,487	8.2%
Total.....	5,058	100.0%	19,090	100.0%	7,014	100.0%	30,809	100.0%

The Company has 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 nine month period ended September 30, 2009 compared with the same period in the prior year. 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.

Case volume for the nine months ended September 30, 2009 was 5,058, a decrease of 1,956 cases, or 27.9%, from the 7,014 total cases in the same prior year period. The overall case volume decline was a net result of a 1.5% increase from the Kirby Partnership and a 50.9% decrease from the Palladium Partnership. The decline at the Palladium Partnership was due to the collection dispute with one of its major payors, which was settled subsequent to September 30, 2009, and to a lesser extent, with another payor. Across specialties, case increases in general surgery were offset by decreases in pain management, podiatry, orthopaedics, gastro-intestinal and ear, nose and throat (ENT) specialties.

Procedure volume for the nine months ended September 30, 2009 decreased by 38.0% from 30,809 to 19,090 in the same prior year period. Since case reimbursement is based on case type, the decrease in the number of procedures per case has no effect on reimbursement and net patient service revenues per case.

**RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2009 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2008**
(in 000's of US \$, except per share data)
(Unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net patient service revenue	\$ 18,999	\$ 31,243
Net income (loss) and comprehensive income (loss).....	\$ 2,884	\$ (28,379)
Add:		
Depreciation and amortization.....	1,114	1,333
Change in fair value of other liabilities, non-controlling interest.....	-	(19,000)
Unrealized (Gain)/ loss on foreign currency exchange contracts.....	(4,750)	4,335
Goodwill and intangible asset impairment.....	-	78,941
Income tax (current & future).....	(685)	(27,232)
Adjusted EBITDA	(1,437)	9,998
Less:		
Capital expenditures.....	(53)	(312)
Adjusted EBITDA net of capital expenditures	\$ (1,490)	\$ 9,686
Adjusted EBITDA margin net of capital expenditures	-7.8%	31.0%

Adjusted EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the nine months ended September 30, 2009 was negative \$1.4 million, a decrease of \$11.4 million from \$10.0 million for the same period in the prior year. The decrease was primarily attributable to \$78.9 million charge the Company took in goodwill and intangible asset impairment for the nine months ended September 30, 2008. There was no change for the nine months ended September 30, 2009 in the fair value of other liabilities, non-controlling interest, which represented the change in fair value of the Class B Units of Northstar Subco held by Ventures, compared to a gain of \$19.0 million for the nine months ended September 30, 2008.

SUMMARY OF QUARTERLY RESULTS

	<u>3rd Q 2009</u>	<u>2nd Q 2009</u>	<u>1st Q 2009</u>	<u>4th Q 2008</u>	<u>3rd Q 2008</u>	<u>2nd Q 2008</u>	<u>1st Q 2008</u>	<u>4th Q 2007</u>
Net patient service revenues.....	\$ 6,843	\$ 6,612	\$ 5,544	\$ 11,536	\$ 9,364	\$ 10,926	\$ 10,953	\$ 13,593
Net income (loss) and comprehensive income (loss).....	\$ 2,868	\$ 1,744	\$ (1,728)	\$ (75,827)	\$ (33,371)	\$ 2,890	\$ 2,102	\$ 1,470
Net income (loss) per basic share.....	\$ 0.21	\$ 0.13	\$ (0.12)	\$ (5.45)	\$ (2.40)	\$ 0.21	\$ 0.15	\$ 0.11
Net income (loss) per diluted share.....	\$ 0.19	\$ 0.12	\$ (0.12)	\$ (5.45)	\$ (2.40)	\$ 0.21	\$ 0.15	\$ 0.11

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Liquidity refers to an entity's ability to meet its financial obligations and commitments as they become due. The Company is dependent upon cash generated from operating activities of the Northstar Partnerships, which are the major source of financing for its operations and for meeting its contractual obligations. The Company's operating results and cash flows for the nine months ended September 30, 2009 reflected the effects of the significant decrease in case volume at the Palladium Partnership and flat growth at the Kirby Partnership.

For the three and nine months ended September 30, 2009 the Company's cash flow from operations was \$2.2 and \$6.7 million, respectively. These represented a 58.3% and 63.3% decrease from the cash flow from operations for the three months (\$5.2 million) and the nine months (\$18.3 million) ended September 30, 2008, respectively. On January 12, 2009, the Board of Directors suspended the payments of dividends on the Company's common shares, effective after payment of the January 15, 2009 dividend. As a result, distributions to non-controlling interest were \$1.2 million for the three months ended September 30, 2009. Dividends paid, realized loss on the foreign translation of the forward currency contracts, and distributions to non-controlling interests totalled \$4.7 million for the nine months ended September 30, 2009. Capital expenditures were minimal for the three and nine months ended September 30, 2009, respectively. The Company, as of September 30, 2009, had not identified any major capital expenditure needs for the remainder of 2009.

As at September 30, 2009, the Company had consolidated net working capital of \$8.8 million. Cash balances were \$5.4 million and total accounts receivable were \$3.5 million. Accounts payable and accrued liabilities totalled \$2.8 million and total long term liabilities were \$5.4 million. Management expects to generate sufficient amounts of cash to maintain its capacity and meet its current working capital requirements. However, as a result of certain claims made by the Company and its subsidiaries against Donald Kramer, M.D., the Company's founder and former CEO and director, related entities and former managers (discussed below under "Outlook"), there is a significant amount of uncertainty regarding the Company's liquidity needs in 2010 and beyond. The Company may be required to expend significant amount of capital and devote considerable management time to pursue these claims. It is not possible to accurately predict the amount of expenses that will be incurred to pursue or resolve these matters. If the actual costs exceeds management's estimates, the Company may not have sufficient cash to fund its working capital requirements during the next twelve months.

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 paid 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. As a result of the claims by Northstar against Dr. Kramer, there can be no assurance that the Company will be able to draw down any amounts under the credit facility.

CONTRACTUAL OBLIGATIONS

The Company leases 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.

The following table outlines the future minimum payments under these operating leases:

Year	Amount
2009 (remaining three months)	209
2010.....	843
2011.....	859
2012.....	856
2013.....	734
Thereafter	98
Total	<u>\$ 3,599</u>

FINANCIAL INSTRUMENTS

Foreign Exchange Contracts

The Company had initially 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.

On September 18, 2009, the Company closed out its position in its foreign currency exchange contracts, thereby reducing majority of its future financial risk related to changes in the value of the Canadian dollar versus the US dollar. In closing out its contracts, the Company realized a one-time cost of approximately \$0.3 million. The Company in the future should only be exposed to currency risk on services provided by vendors based in Canada.

Forbearance Agreement

On March 5, 2009, the Company and its subsidiaries, Northstar Healthcare Holdings Inc. ("Northstar Holdco") and Northstar Acquisitions, entered into an agreement (the "Forbearance Agreement") pursuant to which, among other things, (i) Northstar Holdco acknowledged that it was in breach of certain of the financial covenants (the "Existing Event of Default") contained in the Sale and Repurchase Agreement among the parties dated May 17, 2007 (the "Repurchase Agreement"); (ii) the Company agreed, based on certain terms and conditions, to forbear from taking any action in connection with the Existing Event of Default under the Repurchase Agreement on a month-to-month basis; and (iii) the parties agreed to amend the Repurchase Agreement such that, in the event Northstar Holdco repurchases the Acquisitions Class A Units under the Repurchase Agreement, the Company should realize an internal rate of return of 11.1% per annum on the initial purchase price of the Acquisitions Class A Units plus, if applicable, an additional internal rate of return of 2.0% per annum during each fiscal quarter following the date of the Forbearance Agreement (including, for clarity, the first fiscal quarter of 2009) for which the Existing Event of Default remains outstanding.

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.

Dr. Kramer owns approximately 18% of the Palladium Partnership and is the sole limited partner of Ventures. Ventures holds all of the Northstar Acquisitions Class B Units. 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 Agreement between Northstar Acquisitions and the Northstar Partnerships and for services provided to other clients of Northstar Acquisitions), payable after all distributions have been made

to the holders of Northstar Acquisitions Preferred Units and Northstar Acquisitions Class A Units. The specified percentage is currently equal to 12.5% and will decrease if Ventures disposes of Northstar Acquisitions Class B Units pursuant to its negotiation right.

Ventures also holds all of the Northstar Subco Class B Units. 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 initial full monthly dividend, Ventures' distribution from Northstar 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 paid 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 also provided cash collateral of \$5.0 million as required to support the Company's performance under foreign currency contracts. Ventures 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 and all income earned thereon was released to Ventures as a result of the Company's decision to close out all of its remaining foreign exchange currency contracts on September 18, 2009.

Included in accrued liabilities as of September 30, 2009 is \$2.0 million related to deferred Northstar Subco monthly distributions to Ventures, compared to \$1.7 million as of December 31, 2008. The operating agreement of Northstar 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 Northstar 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 and May 2008 to September 2009 was less than 110% of the initial full monthly dividend; accordingly, the payment of \$2.0 million of the distributions due to Ventures on account of its Northstar Subco Class B Units for those months has been deferred until twelve months following the month of deferral, provided that at such time the Company's 12-month trailing cash available for dividends exceeds 110% of the initial full monthly dividend.

The Company, through Northstar Acquisitions, provides management services to the Palladium for Surgery – Dallas and, until July 8, 2009, provided management services to River Oaks Pain Management (the "Managed Centers"). The management agreements with the Managed Centers provide for a management fee of 10% of net collected revenues. The Palladium for Surgery – Dallas is located in Dallas, Texas and began operations in 2005. Dr. Kramer owns 95% of The Palladium for Surgery – Dallas and a 100% of River Oaks Pain Management.

Revenue from management fees represents fees charged to the Managed Centers and is based on a percent of collections, for managing the centres' business operations. The revenue from these fees was \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2009 and 2008, respectively.

In October 2007, the Company acquired an option to acquire a 60% interest in The Palladium for Surgery – Dallas. In consideration for the option, the Company agreed to reduce the management fees it receives from The Palladium for Surgery - Dallas from 10% to 5.5% over the term of the option, upon the achievement of certain prescribed conditions. As of September 30, 2009, The Palladium for Surgery – Dallas had not met the prescribed conditions.

The Palladium Partnership had a service agreement with Palladium Anaesthesia, P.A., which is controlled by Donald Kramer M.D., to provide anaesthesiology services for cases performed at the Palladium Partnership. On July 22, 2009, a sixty-day termination notice was provided by the Palladium Partnership to terminate the agreement and the termination went in effect September 20, 2009. Subsequent to the termination, the Palladium Partnership engaged with another anaesthesiology group to ensure continuity of its patient care.

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 from those estimates.

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

Net patient service revenues of the Company include 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 reimbursement practices of 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.

ADOPTING OF NEW ACCOUNTING STANDARDS AND DEVELOPMENTS

Recent Accounting Pronouncements

Section 1582, Business Combinations. This new Section replaces Section 1581 and will be applicable to business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Company is currently evaluating the implications of this new standard.

Section 1601, Consolidated financial statements. These new Sections will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company is currently evaluating the implications of this new standard.

Section 1602, Non-Controlling interests. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the implications of this new standard. Section 1601 and 1602 replaced Section 1600, the previous consolidated financial statements section.

Section 1506, Accounting changes. This section has been amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendment applies to interim and annual financial statements relating to fiscal years beginning on or after July 1, 2009. The Company is currently evaluating the implications of this new standard.

EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. In January 2009, the Emerging Issues Committee of the CICA ("EIC") issued guidance on the implications of credit risk in determining fair value of an entity's financial assets and financial liabilities. The guidance clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The conclusions of the EIC were effective from the date of issuance. The Company is currently evaluating the implications of this new standard.

Section 3855, Financial instruments – recognition and measurement. This section has been amended to clarify the application of the effective interest method after a debt instrument has been impaired. This amendment is effective for fiscal years beginning on or after July 1, 2009. This section has also been amended to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The third amendment provides guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held for trading category. This amendment was made in August 2009 with prospective application. The Company is currently evaluating the implications of this new standard.

Section 3862, Financial instruments – disclosures. In June 2009, the AcSB amended certain requirements related to financial instrument disclosure in response to amendments issued by the International Accounting Standards Board. The new disclosure standards require disclosure of fair values based on a fair value hierarchy as well as enhanced discussion and quantitative disclosure related to liquidity risk. The amended disclosure requirements are effective for annual financial statements relating to fiscal years ending after September 30, 2009. Earlier adoption is permitted. To provide relief for preparers, and consistent with IFRS, the AcSB decided that an entity need not provide comparative information for the disclosures required by the amendments in the first year of application. The Company is currently evaluating the implications of this new standard.

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 ("IFRS") 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.

During the planning stage, the Company identified a knowledge gap internally for a comprehensive impact assessment and a timely IFRS conversion. The Company engaged an external consulting firm in April 2009 to provide a system review and implementation protocol. Management completed the review and prepared a changeover plan that includes an established project structure and governance practices, detailed timetable for fiscal 2009 and 2010, identification and allocation of resources, development and execution of a training program, detailed analysis of all Canadian GAAP to IFRS differences, detailed analysis and selection of all IFRS 1 elections, and assessment of impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements. This plan was reviewed and accepted by the Audit Committee of the Company and all future achievements will be reported on a quarterly basis. During the three months ended September 30, 2009, management has continued to execute on their IFRS conversion plan. The Company has engaged the external consulting firm to assist the Company with phase II of the conversion process, including review of management's position papers on the accounts identified in phase I of the plan.

Adoption of New Accounting Standards and Developments

Effective January 1, 2009, the Company adopted Section 3064 Goodwill and Intangible Assets. This section replaces Handbook Section 3062 Goodwill and Other Intangible Assets and Handbook Section 3450 Research and Development Costs. It establishes standards for recognition, measurement and disclosure of goodwill and intangible assets. Canada's Accounting Standards Board (AcSB) also made an amendment to Section 1000, Financial Statement Concepts to delete guidance previously interpreted to support the appropriateness of deferral of costs. In the past, expenses would be deferred on the basis of the matching principle. Going forward, expenses can only be capitalized if they meet the definition of an asset or the criteria for recognition.

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 presentation requirements.

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.

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.

Effective January 1, 2008, the Company adopted the amended CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”. This revised standard requires management to assess the Company’s ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. The adoption of this revised standard had no impact on the Company’s presentation of its financial position.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Internal Controls Over Financial Reporting and Disclosure

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 (“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.

The CEO and CFO have designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared.

There has been no material change in the design of the Company’s internal control over financial reporting during the nine months ended September 30, 2009, that would materially effect or are reasonably likely to materially affect the Company’s internal control over financial reporting.

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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, the Company is exposed to market risks arising from adverse changes in 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.

As a result of closing out all of its remaining foreign currency exchange contracts, the Company should only be exposed to currency risk on services provided by vendors based in Canada. As of September 30, 2009, the Company had trade payables of \$0.1 million denominated in Canadian dollars.

RISK FACTORS

Please refer to the risk factors, in addition to the ones discussed herein, set out in the Company's Annual Information Form dated March 31, 2009.

OUTSTANDING SHARE DATA

At November 11, 2009, the Company had 13,900,852 Common Shares outstanding and had granted 1,300,938 units under the Restricted Share Unit Plan and Deferred Share Unit Plan.

OUTLOOK

Proposed changes to the U.S. current healthcare system by the current administration are expected to alter the economics, practices and delivery of health care in the United States. They are intended to address rapidly rising costs and expand health care coverage to the approximately 46 million uninsured Americans. Comparing the various bills currently being debated in both the House and Senate, several key measures are consistent and, if adopted, will significantly alter management's long-term strategy for the Company.

Both the House and Senate bills call for sweeping insurance market reforms that: 1) bar insurance companies from refusing to cover people or charging them more because of health history or gender; 2) cap out-of-pocket expenses; 3) place a limit on insurance premiums; and 4) increase competition with private insurance companies either through a new government plan or creating non-profit medical co-operatives. These measures will likely increase demand for overall health care services, generally, and prevent insurance companies from raising patient's out-of-network deductibles, resulting in the reduction of reimbursements, especially for out-of-network facilities.

The Company believes that effective cost control and creating brand awareness in consumers through proven marketing strategies utilized by other consumer-driven industries is critical to the success of the Company. For the three months ended September 30, 2009, the Kirby Partnership, with 20% of its patients coming from an in-network contract, has maintained a 30% overall operating margin. This has been achieved through on-going cost control initiatives and management intends to duplicate these efforts at the Palladium Partnership if it is able to re-syndicate its physician partnership and conclude its current negotiations with one of its major payors.

Northstar is encouraged by the potential growing trend of consolidation within the ASC industry. However, at the same time, the Company is held back internally by the uncertainty surrounding claims the Company has made against Dr. Donald Kramer, related entities and three former managers (who collectively own approximately 19% of the Palladium Partnership) under agreements relating to Northstar's acquisition of its interest in the Palladium Partnership. In November 2009, the Company settled the claims made against the three former managers.

The Company is continuing to pursue its claims against Dr. Kramer, and after two mediation sessions in September and October 2009, no resolution was achieved. As of November 11, 2009, the Company has not reached a settlement with Dr. Kramer and continues to pursue these claims and discussions to achieve a resolution.

There can be no assurance that the Company will be successful or that it will recover any material amounts under its claims. The expenses involved in investigating and pursuing such claims could have a material adverse affect on the operations and cash flows of Northstar as a whole.

Due in part to the claims discussed above, the re-syndication efforts have not proceeded as quickly as planned and case volumes at the Palladium partnership have declined. It is necessary for Dr. Kramer to approve the re-syndication proposals that have been developed, and to date he has not done so.

On November 4, 2009, the Company announced that the Palladium Partnership had reached a complete resolution of the dispute with one of its largest payors, a major private health insurance provider. As a critical component of the resolution, the parties have signed a Settlement Agreement under which the Palladium Partnership and the payor have agreed to release each other from any past or present claims related to the dispute.

In addition to the Settlement Agreement, the Palladium Partnership entered into a Facility Participation Agreement with the payor. Under this in-network agreement, surgical procedures performed at Palladium-Houston will be reimbursed by the payor at agreed-upon rates. The contract is effective December 1, 2009 for an initial period of three years, extendible annually thereafter.

In finalizing terms of the contract, the Palladium Partnership and the payor have agreed that the payor will adjudicate previously billed claims, which have remained unpaid, excluding claims billed for procedures performed by certain non-partner physicians.

In light of the reduced case load, management has prepared and implemented both a rightsizing plan to ensure the appropriate use of the centers' resources and an incentive plan to retain its core staff.

On July 10, 2009, Palladium for Surgery – Dallas delivered notice to Northstar Acquisitions alleging certain breaches of the management agreement between the two entities. Northstar Acquisitions disputes these allegations. Under the terms of the Palladium – Dallas management agreement, Palladium – Dallas has the right to terminate the contract in the event of a material breach by Northstar Acquisitions of its obligations thereunder which continues for a period of 60 days after notice; provided that if such default is of a nature that it cannot be cured within 60 days, then the agreement shall not terminate provided Northstar Acquisitions shall make and continue to make a bona fide effort to cure any such default. Dr. Kramer owns a 95% interest in Palladium for Surgery – Dallas. In October 2009, Palladium for Surgery – Dallas sent a second notice to terminate the management agreement. In November 2009, Northstar Acquisitions replied to the second notice disputing the allegations indicating that there was no breach of the management agreement. Northstar Acquisitions will continue to manage the center through a transition period and expects to transfer management of the center to Dr. Kramer on December 31, 2009 while reserving its legal rights. The revenue from the management fees charged to the Managed Centers for the three and nine months ended September 30, 2009 was \$0.1 million and \$0.3 million, respectively.

Notwithstanding the difficulties outlined above, management continues to see opportunities for business development in the Houston outpatient surgery market. A general slowdown of the economy and high unemployment rates have negatively impacted many small to mid sized ASCs in the Houston-metro area and prompted them to exit the market, voluntarily or involuntarily. This trend could possibly make additional market areas available for a potential de novo project and future physician-partner recruitment. .

ADDITIONAL INFORMATION

Additional information relating to the Company, including the consolidated interim financial statements for the three and nine months ended September 30, 2009 and the Company's annual information form, is available on SEDAR at www.sedar.com.

November 11, 2009