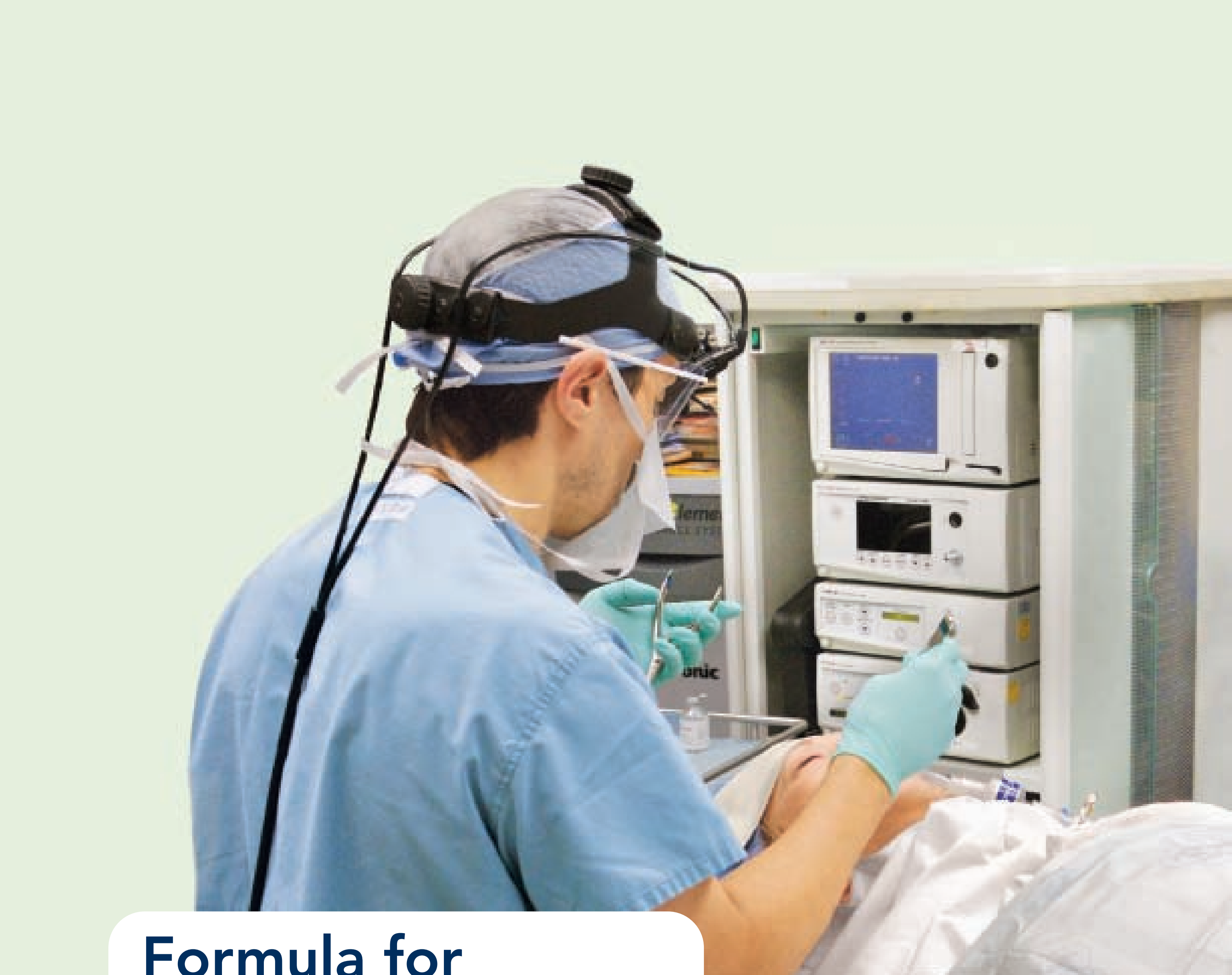

Formula for Success

2007 ANNUAL REPORT

Northstar Healthcare Inc.

Northstar Healthcare Inc. owns and manages outpatient surgery centers. The company holds indirect majority interests in two centers in Houston and manages a third in Dallas, in which it has an option to acquire a majority interest. Northstar also manages three pain clinics in Houston.

Northstar generates substantially all of its revenues from the facility fees charged for the physicians' use of the company's operating or procedure rooms, staff and supplies. Management fees from the Houston pain clinics and the Dallas ASC account for the balance of the company's revenues. Financial returns are increased through efficient scheduling and workflow, while marketing efforts focus on a range of more profitably paid procedures.

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On May 17, 2007, Northstar completed an initial public offering of common shares on the Toronto Stock Exchange raising Cdn$170 million, including an over-allotment option. Through an 87.5 percent-owned subsidiary, the company acquired partnership interests in The Palladium for Surgery – Houston (70 percent) and Medical Ambulatory Surgical Suites (known as the Kirby Center – 60 percent).

- Dividends declared since the inception of the company on May 17 to December 31, 2007, were Cdn$10.4 million, representing a payout ratio of 80.4%.
- Cash available for dividends increased 12.2%, on the same basis, from US$17.4 million to US$19.5 million, or from Cdn$19 million to Cdn$20.8 million.
- Net patient service revenues increased 10.1% on a pro forma combined basis, from US$45.6 million for the 12 months ended December 31, 2006, to US$50.2 million for the comparable period in 2007.
- Although the total number of procedures performed at Northstar partnership ASCs declined in 2007 compared to 2006 (on a combined, pro forma basis), net patient revenues increased due to an increase in the number of more complex and higher reimbursing procedures. More specifically, the number of pain management procedures declined, while orthopedics, podiatry and ear, nose and throat (ENT) procedures increased.
- On October 16, 2007, Northstar completed acquisition of an option to acquire 60% of The Palladium for Surgery – Dallas.

US$ 000 (except per share amount or where indicated)	Period from May 17, 2007 to December 31, 2007	Pro forma combined[2][3] twelve months ended December 31, 2007	Pro forma[2] twelve months ended December 31, 2006
Net patient service revenue	$ 32,919	$ 50,224	$ 45,598
Income from operations	$ 21,323	$ 32,940	$ 31,887
Net income	$ 3,160	$ 8,761	$ 13,824
Net income per share	$ 0.23	$ 0.63	$ 0.99
EBITDA[1]	$ 12,344	$ 19,651	$ 16,878
EBITDA[1] margin	37.5%	39.1%	37.0%
Cash available for dividends	$ 12,119	$ 19,485	$ 17,361
Cash available for dividends Cdn$	$ 12,934	$ 20,796	$ 19,047
Dividends declared Cdn$	$ 10,398	$ 16,681	$ 16,681
Payout ratio	80.4%	80.2%	87.6%

[1] EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is net of non-controlling interests, capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interests.

[2] Pro forma net patient service revenues have been adjusted for changes in historical collection percentages, as indicated in the Q3 2007 MD&A. As a result of the adjustments to net patient service revenues, income tax expense and non-controlling interest have also been adjusted. Pro forma results assume common shares outstanding at the same level as at December 31, 2007.

[3] Pro forma combined results comprise the actual results from May 17, 2007 to December 31, 2007 with pro forma results from January 1, 2007 to May 16, 2007.

Northstar Healthcare Inc. successfully completed its initial public offering in May 2007. Northstar's launch included a solid platform for corporate governance that reflects contemporary standards. The directors are experienced, engaged and independent in thought and action.

The long-term interests of the company are the responsibility of the Board of Directors, which has three main duties: setting the strategic direction of the company; retaining management; and providing management oversight. Northstar Healthcare's Board acts through two committees: the Audit Committee and the Compensation, Nominating and Corporate Governance Committee – both of which are comprised solely of independent directors.

Good governance relies on Board members having the experience, skill in management and finance, available time and independence necessary to meet their obligations. Shareholders may be confident, therefore, that we are pleased to stand behind the operating and financial results of the company and the conduct of the business. Further, to ensure alignment of interests of Board members and shareholders, Board members all maintain a financial stake in the company's common shares.

"The Board has focused on building the infrastructure of the company to support long-term success."

Northstar Healthcare combined two previously independent ASCs in a single new operating company. Since the IPO, the Board has focused on building the leadership team, enhancing systems, procedures and controls, and working with management to refine its strategy – all to position the company for long-term success.

In closing, I would like to express the Board's thanks and appreciation to Cecil Fleming. Mr. Fleming served as Chairman in the company's formative days and his many years of senior financial management experience were invaluable in leading the Board and assisting management in the critical period after the company's successful IPO. Cecil served as a director until November 2007, when he resigned due to ill health. I also thank my fellow directors, Victor Wells, Barry Tissenbaum and our CEO Dr. Donald Kramer, for their extraordinary efforts in our initial period as a public company.

Robert P. Kanee

Robert P. Kanee
Chairman

Northstar's marketing team continues to develop programs designed to enhance revenue while the company's business development team identifies potential targets for acquisition.

I am pleased to present Northstar Healthcare's first annual report. Before addressing our 2007 results, I will introduce our business and position it for you within the context of the U.S. healthcare industry.

Northstar Healthcare's most significant accomplishment in 2007 was the successful completion of our initial public offering. At that time Northstar acquired majority interests in two Houston-based outpatient surgery centers, also known as ambulatory surgery centers, or ASCs. Our ASCs have a combined seven operating suites and three procedure or treatment rooms, with 117 active surgeons at year-end. In 2007, our surgeons performed more than 47,000 outpatient procedures, specializing primarily in orthopedic surgery, podiatry, ear, nose and throat (ENT) and pain management.

Northstar benefits from organic growth strategies at these facilities and also at other ASCs to be acquired in the future. The number of procedures eligible to be performed in ASCs continues to grow, driving the establishment of more facilities. The industry remains largely unconsolidated, however, and we are excited about Northstar's potential as a consolidator.

ASC ADVANTAGES

Surgeons and patients alike frequently prefer the ASC experience to treatment in conventional hospitals. For surgeons, working in ASCs enables a more efficient use of time and skills. Patients like ASCs because of the high standards of customer service.

In addition, procedures performed at ASCs often cost hundreds of dollars less than in-hospital procedures, and this makes treatment in ASCs attractive to payors, such as insurance companies.

As a result of these advantages – for surgeons, for patients and for payors – outpatient surgeries performed in ASCs are now estimated to account for over 85 percent of all U.S. surgeries.

Northstar Healthcare's revenue is driven both by the number of procedures performed and by the payments we receive for each procedure. We therefore strive to maximize both.

We constantly monitor the types of procedures performed in Northstar's ASCs to maximize their contribution to revenue and earnings. We seek to increase revenues by recruiting new surgeons and launching marketing initiatives to bring better-paying procedures to our centers. For example, Northstar recently introduced new programs for sinus patients, spine surgery and manipulation under anesthesia. We are also in active development of a hand surgery program.

"In the U.S., it is estimated that over 85 percent of all surgeries are now performed in ASCs."

2007 FINANCIAL RESULTS

Although the number of surgical procedures declined in 2007, compared to 2006, net patient revenues increased by 10 percent on a combined pro forma basis, to US$50.2 million from US$45.6 million in 2006, reflecting a more favorable mix of procedures.

Cash available to pay dividends increased by 12 percent, on the same basis, to US$19.5 million in 2007, from US$17.4 million in 2006.

For the May 17 through December 31, 2007 period of public ownership, Northstar paid dividends to common shareholders amounting to Cdn$10.4 million, representing a payout ratio of 80.4 percent, in line with management's expectations.

OUTLOOK

Looking ahead, we believe there is significant growth available to Northstar Healthcare. The U.S. healthcare market is the world's largest, and it is expected to grow at 7 percent annually, through 2015, and approximately 85 percent of the U.S. population has access to healthcare insurance.

In addition to continuing to increase the revenue and profitability of our Houston ASCs, Northstar acquired an option to purchase a majority partnership interest in the ASC we currently manage in Dallas. Over and above this, however, we are focused on capitalizing on the opportunities for growth presented by the large, unconsolidated portion of the ASC market. Since the completion of our IPO, we have dedicated significant resources to putting in place a scalable infrastructure that will enable Northstar to successfully acquire and integrate acquisitions. We look forward to reporting back to shareholders on this front.

On behalf of the management and Board of Directors of Northstar Healthcare, I'd like to express my sincere appreciation to our employee team. Thanks to their dedication and hard work, Northstar has made a successful debut as a public company. I also thank you, our shareholders, for your participation in the company. Please know that we remained focused on delivering superior shareholder value.

Donald L. Kramer, MD
Chief Executive Officer

Q Northstar has acquired majority partnership interests in the Houston ambulatory surgical centers. What does this mean and who holds the remaining interests?

A In the United States, ASCs are often created by groups of surgeons, primarily as a place to perform their surgeries. Northstar Healthcare brings a business focus to these operations, seeking to maximize profit for the owners through implementation of our marketing strategies. In our case, the remaining interests at the ASC level are held by the surgeon partners who practice at our centers, to ensure that they retain a strong ownership interest in the continuing success of the business.

Q What is the attraction of the Houston area for Northstar Healthcare?

A Houston offers several attractions for our business. First, Houston is among the largest and fastest-growing cities in the United States, so it has a solid population base to generate patients for our ASCs. Second, the employment market is strong in Houston. To attract workers, employers have to offer extensive benefits, including excellent medical coverage. Accordingly, our patient base can afford our services. Finally, Houston has one of the largest concentrations of medical services – hospitals and medical schools – in the world, and this provides us with both doctors and patients.

Q Where does Northstar Healthcare plan to expand first?

A Certainly Houston and the broader Texas market continue to present excellent growth opportunities. At the same time, however, we are seeing similar strong prospects in a number of other geographic markets. Our growth will not be dictated by geography but rather by where we see the opportunities to most meaningfully expand our business.

Q Did Northstar Healthcare's financial performance in 2007 meet management's expectations?

A While 2007 total net patient revenues grew 10.1 percent, and cash available for dividends increased 12.2 percent, overall growth was less than expected. Gains produced by The Palladium for Surgery – Houston were somewhat offset by performance at the Kirby Center. Although the number of procedures at Kirby remained even with 2006, the center experienced an unfavorable shift in its payor mix. This resulted in a reduction in cash flow. Management has launched a number of initiatives designed to improve Kirby's performance.

Q What are the growth prospects for Northstar Healthcare over the next few years?

A We believe Northstar's growth potential is very strong. Thanks to innovations in technology, surgeries continue to move from hospitals to outpatient facilities. We are adopting these technologies to expand the range of our patient services. Furthermore there is tremendous opportunity for growth through acquisition in this largely unconsolidated industry.

Q What is Northstar looking for in potential acquisition candidates?

A We seek to partner with physicians with excellent reputations who have ownership in profitable ASCs. We will add a business infrastructure and marketing initiatives to enhance revenues.

The following management discussion and analysis of the financial condition and results of operations of Northstar Healthcare Inc. (the "Company" or "NHC") for the period from May 17, 2007 to December 31, 2007 is provided as of March 17, 2008. It is supplemental to, and should be read in conjunction with the financial statements of the Company for the period from May 17, 2007 to December 31, 2007. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Substantially all of the Company's operating cash flows are in U.S. dollars; accordingly, all amounts presented herein are stated in thousands of U.S. dollars, except per share data, unless otherwise indicated.

FORWARD LOOKING INFORMATION

This management's discussion and analysis 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 expansion, capital expenditures, competitive conditions and gross economic conditions.

Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking information, including, without limitation, general business risks inherent in the ASC industry, including changing surgeon and patient preferences, numerous federal, state and local laws, competition from other healthcare providers 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 section titled "Risk Factors" in NHC's Annual Information Form. 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 management's discussion and analysis contains references to EBITDA (earnings before interest, taxes, depreciation and amortization). Management believes that EBITDA is a useful supplemental measure of cash available for dividends prior to debt service, capital expenditures, income taxes and other reserves. However, EBITDA is not a recognized measure under Canadian GAAP and does not have a standardized meaning prescribed by Canadian GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss (which are determined in accordance with Canadian GAAP) as an indicator of the performance of the Company or its subsidiaries or as a measure of liquidity and cash flows.

PRESENTATION OF FINANCIAL INFORMATION

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

The period ended December 31, 2007 (part of fiscal year 2007) includes from the inception of operations on May 17, 2007 to December 31, 2007. There are no financial statements for the 2006 prior period for the Company (or its subsidiaries) that can be used on a comprehensive basis for comparing the operating results for the period from May 17, 2007 to December 31, 2007 with those of the corresponding period of the prior year. At the time of the Company's initial public offering, it acquired controlling interests in two distinct businesses: The Palladium for Surgery – Houston, L.P. (the "Palladium Partnership") and Medical Ambulatory Surgical Suites, Ltd (the "Kirby Partnership" and together with the Palladium Partnership, the "Northstar Partnerships").

This management discussion and analysis includes a pro forma summary of the operating results of the Company for the period of January 1, 2007 to May 16, 2007, prior to the public offering, and of the Palladium Partnership and the Kirby Partnership on a combined basis to arrive at pro forma combined operating results of the Company for the year ended December 31, 2007. In addition, the Company has also provided pro forma combined operating results for the year ended December 31, 2006. Certain figures disclosed in these pro forma combined operating results differ from the pro forma combined operating results previously disclosed in the Company's final prospectus, dated May 9, 2007, for the year ended December 31, 2006, the Company's Business Acquisition Report, dated July 27, 2007, for the quarter ended March 31, 2007, and the Company's unaudited interim financial statements for the period ended June 30, 2007 as a result of management's change in estimates used to determine net patient service revenues made following the introduction of new reporting and trending software in the third quarter of 2007.

We have also 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 twelve-month periods ended December 31, 2007 compared with the prior year periods. Cases and procedures are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as gross billings and net patient service revenues vary by patient, insurance carrier and procedure.

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 centres in the United States, focusing initially on Houston and other metropolitan areas in Texas. NHC used the net proceeds of an initial public offering, including the over-allotment, to indirectly acquire a 70% partnership interest in the Palladium Partnership and a 60% partnership interest in the Kirby Partnership, which operate two ambulatory surgery centres (the "Northstar ASCs") located in Houston. In addition, NHC manages an ambulatory surgery centre in Dallas and three pain management clinics in Houston.

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

Together, the Northstar ASCs have seven operating suites, three procedure or treatment rooms typically used by pain management specialists or for colonoscopies, 12 pre-operation beds, 17 post-operation or recovery beds and 117 surgeons with medical staff privileges.

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

RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2007

	Three Months Ended December 31, 2007
NET PATIENT SERVICE REVENUE	$ 13,593
OPERATING EXPENSES	
Salaries and benefits	1,561
Drugs and supplies	1,173
General and administrative	1,985
Depreciation	331
Amortization	112
	5,162
INCOME FROM OPERATIONS	8,431
OTHER EXPENSE (INCOME)	
Distributions, non-controlling interest	433
Withholding taxes	345
Change in fair value of other liabilities, non-controlling interest	(146)
Loss on foreign currency	356
State franchise tax	87
Other expense (income)	(40)
	1,035
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	7,396
INCOME TAX EXPENSE	
Current	94
Future	2,742
	2,836
Non-controlling interests	3,090
NET INCOME	$ 1,470
NET INCOME PER COMMON SHARE (BASIC AND DILUTED)	$ 0.11
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC AND DILUTED)	13,900,852

For the three months ended December 31, 2007, net patient service revenues totalled $13.6 million. Total cost of operations totalled $5.2 million or 38.0% of net patient service revenues. Operating costs include salaries and benefits of $1.6 million or 11.5% of net patient service revenues, drugs and supplies of $1.2 million or 8.6% of net patient service revenues, general and administrative of $2.0 million or 14.6% of net patient service revenues and depreciation and amortization of $0.4 million or 3.2% of net patient service revenues. Distributions, non-controlling interest totalled $0.4 million, withholding tax totalled $0.3 million, loss on foreign currency exchange contracts totalled $0.4 million and change in fair value of other liabilities non-controlling interest totalled $0.1 million. Non-controlling interests amounted to $3.1 million based on net income before taxes and non-controlling interest of $7.4 million.

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 in subsequent periods based on final settlements and collections.

The loss on foreign currency exchange contracts of $0.4 million relates to the change for the three months ended December 31, 2007 in fair value of the five-year foreign currency exchange contracts entered into by the Company to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar for future common share dividends, as a result of the decline in value of the Canadian dollar during the period, net of realized gains recognized between the spot rate on the date of record and the exchange rate under the Company's currency instruments.

The $0.1 million change in the fair value of other liabilities, non-controlling interest represents the change in fair value of the Class B Units of Northstar Healthcare Subco, LLC ("Northstar Subco") held by Healthcare Ventures, Ltd. ("Ventures"), whose fair value was based on an external appraisal incorporating the discounted cash flow method, during the three months ended December 31, 2007. This item is recorded as an expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures entitling it to request that Northstar Subco enter into good faith negotiations to purchase for cancellation all or any portion of the Class B Units of Northstar Subco held by Ventures. The price paid for such Northstar Subco Class B Units will be equal to their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Healthcare Acquisitions, L.L.C ("Northstar Acquisitions"). Northstar Acquisitions will purchase for cancellation all outstanding Class B Units of Northstar Acquisitions for a nominal amount on the date that all outstanding Class B Units of Northstar Subco have been purchased for cancellation by Northstar Subco.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2007 AND 2006

Speciality	Q4 2007 Cases	Q4 2007 Percentage of Cases	Q4 2007 Procedures	Q4 2007 Percentage of Procedures	Q4 2006 Cases	Q4 2006 Percentage of Cases	Q4 2006 Procedures	Q4 2006 Percentage of Procedures
Pain Management	**1,654**	**55.3%**	**10,099**	**73.2%**	1,632	56.3%	9,218	74.9%
Orthopedics	**691**	**23.1%**	**1,779**	**12.9%**	630	21.7%	1,527	12.4%
Podiatry	**164**	**5.5%**	**600**	**4.4%**	240	8.2%	641	5.2%
Gastro-intestinal	**197**	**6.6%**	**27**	**0.2%**	183	6.3%	8	0.1%
General Surgery	**98**	**3.3%**	**228**	**1.7%**	83	2.9%	209	1.7%
ENT	**187**	**6.2%**	**1,054**	**7.6%**	132	4.6%	697	5.7%
TOTAL	**2,991**	**100.0%**	**13,787**	**100.0%**	2,900	100.0%	12,300	100.0%

Note: A procedure is defined as the actual surgery or surgeries that are performed on the date of service for each patient (case). Each case typically includes numerous procedures. In prior management discussion and analysis reports, the Company provided the number of "unique" procedures per case as the total number of procedures during the period (i.e. a patient may have three different procedures performed, however, one of the three procedures might have been performed numerous times during the case). In this management discussion and analysis, the Company has calculated the total quantity of procedures performed on a case, regardless of the fact that the same procedure may have been performed numerous times. As a result, the total number of procedures has been adjusted in both the 2007 and 2006 periods. This change in the number of procedures has no affect on the number of cases or net patient service revenues, and was adjusted to provide the total number of all procedures for analysis purposes only.

There are no financial statements for the 2006 prior period for the Company (or the Northstar Partnerships) that can be used on a comprehensive basis for comparing the current three month period's operating results with a prior period. At the time of the Company's initial public offering, it acquired controlling interests in two distinct businesses; the Palladium Partnership and the Kirby Partnership. Historically, neither the Palladium Partnership nor the Kirby Partnership prepared quarterly financial statements. Accordingly, it is impracticable to present prior-period information on a basis consistent with the results for the three months ended December 31, 2007.

We have provided a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Palladium Partnership and the Kirby Partnership for the three- and twelve-month periods ended December 31, 2007 compared with the prior year periods. Cases and procedures are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as gross billings and net patient service revenues vary by patient, insurance carrier and procedure.

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

Total cases for the three months ended December 31, 2007 were 2,991, an increase of 91 cases or 3.1% over the 2,900 total cases in the same period in 2006. The increase was primarily related to the Orthopedics specialty (increase of 61 cases), ENT specialty (increase of 55 cases); which is offset by a decrease of 76 cases in the Podiatry specialty primarily at the Palladium for Surgery – Houston. The decrease in the Podiatry specialties is primarily due to timing of Physician vacations (vacations days taken in Q4 2007, versus Q4 2006). In addition, the Northstar ASC's continue to focus on complex cases such as Orthopedic and ENT specialty cases. Average collections per case are the highest for ENT, Podiatry and Orthopedics.

Total procedures for the three months ended December 31, 2007 were 13,787, an increase of 1,487 procedures or 12.1% over the same period in 2006, which totalled 12,300. The increase was primarily related to the Pain specialty (increase of 881 procedures), ENT (increase of 357 procedures) and Orthopedics specialty (increase of 252); which is offset by a decline in the Podiatry specialty (decrease of 41) as a result of shifting to more complex cases and timing of Physician vacations.

RESULTS OF OPERATIONS FROM THE INCEPTION OF OPERATION ON MAY 17, 2007 TO DECEMBER 31, 2007 AND THE PRO FORMA COMBINED RESULTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

	Period from May 17, 2007 to December 31, 2007	**Pro Forma Combined Twelve Months Ended December 31, 2007[1] (Unaudited)**	Pro Forma Combined Twelve Months Ended December 31, 2006[1] (Unaudited)
NET PATIENT SERVICE REVENUE	**$ 32,919**	**$ 50,224**	$ 45,598
OPERATING EXPENSES			
Salaries and benefits	**3,853**	**5,798**	3,989
Drugs and supplies	**2,528**	**3,906**	4,076
General and administrative	**4,136**	**5,889**	4,139
Depreciation	**816**	**1,294**	1,150
Amortization	**263**	**397**	357
	11,596	**17,284**	13,711
INCOME FROM OPERATIONS	**21,323**	**32,940**	31,887
OTHER EXPENSE (INCOME)			
Distributions, non-controlling interest	**1,088**	**1,909**	1,910
Withholding taxes	**857**	**1,432**	1,107
Change in fair value of other liabilities, non controlling interest	**10,236**	**10,236**	–
Gain on foreign currency	**(6,003)**	**(6,003)**	–
State franchise tax	**225**	**225**	–
Other expense (income)	**(82)**	**(66)**	50
	6,321	**7,733**	3,067
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**15,002**	**25,207**	28,820
INCOME TAX EXPENSE			
Current	**227**	**166**	(485)
Future	**3,991**	**5,236**	2,826
	4,218	**5,402**	2,341

	Period from May 17, 2007 to December 31, 2007	Pro Forma Combined Twelve Months Ended December 31, 2007[1] (Unaudited)	Pro Forma Combined Twelve Months Ended December 31, 2006[1] (Unaudited)
NON-CONTROLLING INTERESTS	7,624	11,044	12,655
NET INCOME	$ 3,160	$ 8,761	$ 13,824
NET INCOME PER COMMON SHARE (BASIC AND DILUTED)	$ 0.23		
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC AND DILUTED)	13,749,756		

Note:[1] Amounts have been adjusted for changes in historical collection percentages for the year ended December 31, 2006, the three months ended March 31, 2007, the 46-day period ending May 16, 2007 and the 45-day period ending June 30, 2007, as indicated in the management discussion and analysis for the period ended September 30, 2007. The adjustment downwards to net patient service revenues were $1.8 million, $0.9 million, $0.9 million and $0.8 million, respectively. As a result of the adjustments to net patient service revenues, income tax expense and non-controlling interest have also been adjusted.

RESULTS OF OPERATIONS FROM THE INCEPTION OF OPERATIONS ON MAY 17, 2007 TO DECEMBER 31, 2007

Net patient service revenues for the period from May 17, 2007 to December 31, 2007 totalled $32.9 million. Total cost of operations totalled $11.6 million or 35.2% of net patient service revenues. Operating costs include salaries and benefits of $3.9 million or 11.7% of net patient service revenues, drugs and supplies of $2.5 million or 7.7% of net patient service revenues, general and administrative of $4.1 million or 12.6% of net patient service revenues and depreciation and amortization of $1.1 million or 3.3% of net patient service revenues. Distribution, non-controlling interest totalled $1.1 million, withholding tax totalled $0.9 million, gain on foreign currency exchange contracts totalled $6.0 million and change in fair value of other liabilities, non-controlling interest totalled $10.2 million. Income tax expense totalled $4.3 million. Non-controlling interests amounted to $7.6 million based on net income before taxes and non-controlling interests of $15.0 million.

The gain on foreign currency exchange contracts of $6.0 million relates to the change for the period from May 17 to December 31, 2007 in fair value of the five-year foreign currency exchange contracts entered into by the Company to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar for future common share dividends, as a result of the decline in value of the U.S. dollar during the period, net of realized gains recognized between the spot rate on the date of record and the exchange rate under the Company's currency instruments.

The $10.2 million change in the fair value of other liabilities, non-controlling interest represents the change in fair value, which fair value was based on an external appraisal incorporating the discounted cash flow method of the Class B Units of Northstar Subco held by Ventures during the period from May 17, 2007 to December 31, 2007. This item is recorded as an expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures entitling it to request that Northstar Subco enter into good faith negotiations to purchase for cancellation all or any portion of the Class B Units of Northstar Subco held by Ventures. The price paid for such Class B Units of Northstar Subco will be equal to their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Acquisitions. Northstar Acquisitions will purchase for cancellation all outstanding Class B Units of Northstar Acquisitions for a nominal amount on the date that all outstanding Class B Units of Northstar Subco have been purchased for cancellation by of Northstar Subco.

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

The Company's new reporting and trending software also indicated that actual collections at the Kirby Partnership for the year ended December 31, 2006, the three-month period ended March 31, 2007 and the 46-day period ended May 16, 2007 (the day immediately prior to the completion of the Company's initial public offering) were lower than the reported net patient service revenues for those periods, which were based on management's estimate of collections. An application of the data generated by this software, the results of management's review of the actual collections and taking into account the shifting payor mix would have resulted in the net patient service revenues for the Kirby Partnership for such periods being $2.4 million, $1.0 million and $0.6 million lower, respectively, than the

figures reported for such periods. These lower figures were offset somewhat by higher actual collections at the Palladium Partnership for the year ended December 31, 2006 and the three months ended March 31, 2007, which were $0.6 million and $0.2 million higher than the reported net patient service revenues for the Palladium Partnership for those periods, respectively. For the 46 days ended May 16, 2007, the Palladium Partnership actually collected $0.3 million less than its reported net patient service revenues for such period. Taken together, the Company's pro forma net patient service revenues for the year ended December 31, 2006, the three-month period ended March 31, 2007 and the 46-day period ended May 16, 2007 would have been $1.8 million, $0.9 million and $0.9 million lower than the reported figures for such periods had such information been available to the Company at such time, with a corresponding impact on the Company's pro forma accounts receivable at such dates.

COMPARISON OF THE PRO FORMA COMBINED RESULTS OF OPERATION FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007 TO THE PRO FORMA COMBINED RESULTS OF OPERATION FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006

This comparison includes the operating results of the Company for the inception of operations on May 17, 2007 to December 31, 2007 plus the period prior to the public offering, the period from January 1, 2007 through May 16, 2007, on a combined basis to arrive at pro forma combined operating results for the twelve month period ended December 31, 2007. These pro forma combined results for the twelve month period ended December 31, 2007 are compared to the pro forma combined results for the twelve month period ended December 31, 2006.

Net patient service revenues for the twelve months ended December 31, 2007 totalled $50.2 million, which exceeded the net patient service revenues for the twelve months ended December 31, 2006 by $4.6 million or 10.1%. Though the total number of procedures decreased at the Northstar Partnerships for the twelve months ended December 31, 2007 compared to the prior year period, the increase in net patient service revenues was due to an increase in the total number of complex procedures and higher reimbursing cases (ENT increase of 1,987, Podiatry increase of 401 and Orthopedics increase of 184, offset by a decrease in Pain of 4,445). Net patient service revenues at the Palladium Partnership increased $5.4 million or 22.0% over the prior period due to an increase in ENT (1,848), Orthopedics (811) and Podiatry (394), offset by a decrease in Pain procedures (5,065). Both the number of cases and procedures by specialty remained virtually unchanged from the prior period at the Kirby Partnership. The decline in net patient services revenues at the Kirby Partnership was due to a negative shift in payor mix for the twelve months ended December 31, 2007 compared to the same period in 2006.

Salaries and benefits for the twelve months ended December 31, 2007 totalled $5.8 million, which exceeded the salaries and benefits for the twelve months ended December 31, 2006 by $1.8 million or 45.3% as a result of higher staffing levels related to the increase in the number of complex cases at the Palladium Partnership and normal salary increases at both Northstar Partnerships. As a percent of net patient service revenues, salaries and benefits increased to 11.5% for the twelve months ended December 31, 2007, an increase of 2.8% from the twelve months ended December 31, 2006, during which period the percentage was 8.7% of net patient service revenues. The increase as a percent of net patient service revenues was primarily due to salaries and benefits at Northstar Healthcare Acquisitions (as such salaries and benefits were not included in the pro forma combined results for the twelve months ended December 31, 2006) and the hiring of additional full and part-time staff at the Palladium Partnership in place of contract labour.

Drugs and medical supplies for the twelve months ended December 31, 2007 decreased to $3.9 million or 7.8% of net patient service revenues compared to the twelve months ended December 31, 2006, for which drugs and medical supplies costs were $4.1 million, or 8.9% of net patient service revenues. The decrease of $0.2 million or 1.2% of net patient service revenues was due to an overall decrease of 1,719 procedures for the Northstar Partnerships, slightly offset for an increase in supplies per case on the complex cases. In addition, both of the Northstar Partnerships are part of national buying organizations, whose discounts were based on 2007 combined volumes, compared to discounts achieved individually before the Northstar Partnerships were combined.

General and administrative expense for the twelve months ended December 31, 2007 totalled $5.9 million, which exceeded the twelve months ended December 31, 2006 by $1.7 million, or 42.3%, which totalled $4.1 million. As a percent of net patient service revenues, general and administrative expense increased to 11.7% for the twelve months ended December 31, 2007, an increase of 2.6% for the twelve months ended December 31, 2006, for which period the percentage was 9.1% of net revenues. The increase was primarily due to general and administrative expenses incurred by Northstar Acquisitions (as such general and administrative expense were not included in the pro forma combined results for the twelve months ended December 31, 2006). The majority of these general and administrative expenses including legal, accounting, insurance and directors and officer's compensation relate to expenses associated with being a reporting issuer in Canada.

Gain on foreign currency and change in fair value of other liabilities, non controlling interest were $6.0 million and $10.2 million, respectively, for the twelve months ended December 31, 2007. Both the gain on foreign currency and change in fair value of other liabilities, non controlling interest were not included in the twelve months ended December 31, 2006.

The gain on foreign currency exchange contracts of $6.0 million relates to the change for the period from May 17 to December 31, 2007 in fair value of the five-year foreign currency exchange contracts entered into by the Company to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar for future common share dividends, as a result of the decline in value of the U.S. dollar during the period, net of realized gains recognized between the spot rate on the date of record and the exchange rate under the Company's currency instruments.

The $10.2 million change in the fair value of other liabilities, non-controlling interest represents the change in fair value of the Class B Units of Northstar Subco held by Ventures during the period from May 17, 2007 to December 31, 2007 as a result of the increase in the Company's common share price during such period. This item is recorded as an expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures entitling it to request that Northstar Subco enter into good faith negotiations to purchase for cancellation all or any portion of the Class B Units of Northstar Subco held by Ventures. The price paid for such Class B Units of Northstar Subco will be equal to their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Acquisitions. Northstar Acquisitions will purchase for cancellation all outstanding Class B Units of Northstar Acquisitions for a nominal amount on the date that all outstanding Class B Units of Northstar Subco have been purchased for cancellation by of Northstar Subco.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

Speciality	**2007 Cases YTD**	**2007 Percentage of Cases YTD**	**2007 Procedures YTD**	**2007 Percentage of Procedures YTD**	2006 Cases YTD	2006 Percentage of Cases YTD	2006 Procedures YTD	2006 Percentage of Procedures YTD
Pain Management	**5,644**	**55.2%**	**34,159**	**72.0%**	5,874	57.2%	38,604	78.5%
Orthopedics	**2,230**	**21.8%**	**5,897**	**12.4%**	2,285	22.3%	5,713	11.6%
Podiatry	**648**	**6.3%**	**2,346**	**4.9%**	729	7.1%	1,945	4.0%
Gastro-intestinal	**643**	**6.3%**	**132**	**0.3%**	663	6.5%	80	0.1%
General Surgery	**384**	**3.8%**	**1,160**	**2.4%**	367	3.6%	1,058	2.2%
ENT	**668**	**6.6%**	**3,781**	**8.0%**	341	3.3%	1,794	3.6%
TOTAL	**10,217**	**100.0%**	**47,475**	**100.0%**	10,259	100.0%	49,194	100.0%

Note: A procedure is defined as the actual surgery or surgeries that are performed on the date of service for each patient (case). Each case typically includes numerous procedures. In prior management discussion and analysis reports, the Company provided the number of "unique" procedures per case as the total number of procedures during the period (i.e. a patient may have three different procedures performed, however, one of the three procedures might have been performed numerous times during the case). In this management discussion and analysis, the Company has calculated the total quantity of procedures performed on a case, regardless of the fact that the same procedure may have been performed numerous times. As a result, the total number of procedures has been adjusted in both the 2007 and 2006 periods. This change in the number of procedures has no affect on the number of cases or net patient service revenues, and was adjusted to provide the total number of all procedures for analysis purposes only.

Total cases for the fiscal year ended December 31, 2007 were 10,217, a decrease of 42 cases or 0.4% over the same period in 2006, which were 10,259. The slight decrease was primarily related to a decrease in the Pain specialty (decrease of 230 cases), Podiatry specialty (decrease of 81 cases) and Orthopedic specialty (decrease of 55 cases); offset by an increase in ENT cases of 327. The decrease in the Pain, Orthopedic, and Podiatry specialties is primarily due to a shift to more complex cases.

Total procedures for the fiscal year ended December 31, 2007 were 47,475, a decrease of 1,719 procedures or 3.5% over the same period in 2006, which were 49,194. The decline was related to the Pain specialty (decrease of 4,445); which is offset by an increase of 1,987 procedures in the ENT specialty, 401 procedures in the Podiatry specialty, 184 procedures in the Orthopedic specialty, as a result of shifting to more complex cases.

RECONCILIATION OF NET INCOME TO EBITDA FOR THE THREE MONTHS ENDED DECEMBER 31, 2007 AND THE PERIOD FROM MAY 17, 2007 TO DECEMBER 31, 2007

	Three Months Ended December 31, 2007	Period from May 17, 2007 to December 31, 2007
NET PATIENT SERVICE REVENUE	$ 13,593	$ 32,919
Net income	$ 1,470	$ 3,160
Add:		
Depreciation	331	816
Amortization	112	263
(Gain)/loss on foreign currency exchange contracts	356	(6,003)
Change in fair value of other liabilities, non-controlling interest	(146)	10,236
Income taxes	2,836	4,218
EBITDA NET OF NON-CONTROLLING INTERESTS AND BEFORE UNREALIZED GAIN ON FOREIGN CURRENCY EXCHANGE CONTRACTS AND CHANGE IN FAIR VALUE OF OTHER LIABILITIES, NON-CONTROLLING INTEREST	4,959	12,690
Less:		
Capital expenditures	(189)	(346)
EBITDA NET OF NON-CONTROLLING INTERESTS AND CAPITAL EXPENDITURES, AND BEFORE UNREALIZED GAIN ON FOREIGN CURRENCY EXCHANGE CONTRACTS AND CHANGE IN FAIR VALUE OF OTHER LIABILITIES, NON-CONTROLLING INTEREST	$ 4,770[1]	$ 12,344[2]
EBITDA MARGIN NET OF NON-CONTROLLING INTERESTS AND CAPITAL EXPENDITURES, AND BEFORE UNREALIZED GAIN ON FOREIGN CURRENCY EXCHANGE CONTRACTS AND CHANGE IN FAIR VALUE OF OTHER LIABILITIES, NON-CONTROLLING INTEREST	35.1%	37.5%

(1) Cash available to the Company to pay dividends for the three months ended December 31, 2007 is $94 less than EBITDA net of non-controlling interest and capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest, on account of current taxes.

(2) Cash available to the Company to pay dividends for the period from May 17, 2007 to December 31, 2007 is $227 less than EBITDA net of non-controlling interest and capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest, on account of current taxes.

EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the period from May 17, 2007 to December 31, 2007 was $12.7 million. The Company currently has a policy of distributing its available cash from consolidated operations, subject to applicable laws, by way of a monthly dividend on Common Shares, after the retention of amounts considered reasonable and prudent by the Board of Directors for working capital and other purposes, including capital investment and capital reserves. Cash dividends declared in the period from May 17, 2007 to December 31, 2007 totalled $10.2 million or $0.735 (Cdn $0.748) per Common Share.

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

RECONCILIATION OF NET INCOME TO EBITDA FOR THE PRO FORMA COMBINED TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

	Pro Forma Combined Twelve Months Ended December 31, 2007	Pro Forma Combined Twelve Months Ended December 31, 2006
NET PATIENT SERVICE REVENUE	**$ 50,224**	$ 45,598
Net income	**$ 8,761**	$ 13,824
Add:		
Depreciation	**1,294**	1,150
Amortization	**397**	357
(Gain)/loss on foreign currency exchange contracts	**(6,003)**	–
Change in fair value of other liabilities, non-controlling interest	**10,236**	–
Income taxes	**5,402**	2,341
EBITDA NET OF NON-CONTROLLING INTERESTS AND BEFORE UNREALIZED GAIN ON FOREIGN CURRENCY EXCHANGE CONTRACTS AND CHANGE IN FAIR VALUE OF OTHER LIABILITIES, NON-CONTROLLING INTEREST	**20,087**	17,672
Less:		
Capital expenditures	**(436)**	(794)
EBITDA NET OF NON-CONTROLLING INTERESTS AND CAPITAL EXPENDITURES, AND BEFORE UNREALIZED GAIN ON FOREIGN CURRENCY EXCHANGE CONTRACTS AND CHANGE IN FAIR VALUE OF OTHER LIABILITIES, NON-CONTROLLING INTEREST	**$ 19,651**[1]	$ 16,878[2]
EBITDA MARGIN NET OF NON-CONTROLLING INTERESTS AND CAPITAL EXPENDITURES, AND BEFORE UNREALIZED GAIN ON FOREIGN CURRENCY EXCHANGE CONTRACTS AND CHANGE IN FAIR VALUE OF OTHER LIABILITIES, NON-CONTROLLING INTEREST	**39.1%**	37.0%

(1) Cash available to the Company to pay dividends for the pro forma combined twelve months ended December 31, 2007 is $166 less than EBITDA net of non-controlling interest and capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest, on account of current taxes.

(2) Cash available to the Company to pay dividends for pro forma combined twelve months ended December 31, 2006 is $485 greater than EBITDA net of non-controlling interest and capital expenditures, and before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest, on account of current taxes.

EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the twelve months ended December 31, 2007 was $20.1 million compared to $17.7 million for the 2006 period. The Company currently has a policy of distributing its available cash from consolidated operations, subject to applicable laws, by way of a monthly dividend on Common Shares, after the retention of amounts considered reasonable and prudent by the Board of Directors for working capital and other purposes, including capital investment and capital reserves.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

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

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

The Company currently has a policy of distributing its available cash from consolidated operations, subject to applicable law and the terms of any then existing indebtedness, by way of monthly dividends on the Common Shares, after the retention of amounts considered reasonable and prudent by the Board of Directors for working capital and other purposes, including capital investment and capital reserves. Included in the calculation of the Company's cash available to pay dividends is a cash reserve equal to 10% of the Company's aggregate monthly dividend, which is retained by the Company, through its subsidiary, Northstar Subco. In addition, any cash in excess of the cash reserve and the amount necessary to pay the monthly dividend is also retained by the Company. The calculation of the monthly 10% cash reserve was $1.0 million for the period of May 17, 2007 to December 31, 2007. As of December 31, 2007, the Company had cash reserves of $1.8 million. Had the Company not deferred a portion of the Subco monthly distributions to Ventures of $0.5 million for the period of May 17, 2007 to December 31, 2007, such cash reserves balances would have been $1.3 million.

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

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

The Company's cash flow from operations was $7.2 million and $18.3 million for the three months ended December 31, 2007 and the period since inception of May 17, 2007 to December 31, 2007, respectively. Dividends paid and distributions to non-controlling interests were $7.3 million for the three months ended December 31, 2007 and $14.0 million for the period since inception of May 17, 2007 to December 31, 2007. Capital expenditures were $0.2 million and $0.3 million for the three months ended December 31, 2007 and the period since inception of May 17, 2007 to December 31, 2007, respectively.

Cash dividends declared in the period from May 17, 2007 to December 31, 2007 totalled $10.2 million or $0.735 (Cdn $0.748) per common share.

The following table summarizes the available cash, accounts receivable, total assets, current liabilities, long-term liabilities and net working capital as of the end of the periods indicated.

	Year Ended December 31, 2007	Pro Forma Combined Year Ended December 31, 2006 (Unaudited)
Cash and cash equivalents	**$ 4,983**	$ 560
Accounts receivable	**13,861**	13,774
Total assets	**179,609**	147,994
Current liabilities	**5,357**	1,325
Long-term liabilities	**32,191**	17,267
Net working capital	**14,662**	13,633

The increase in current liabilities at December 31, 2007 compared to December 31, 2006 represents expanded activities, dividends payable and other accruals.

		Period from May 17, 2007 to June 30, 2007		3rd Q 2007		4th Q 2007
Net patient service revenues	$	**6,818**	$	**12,508**	$	**13,593**
Net income		**1,369**		**322**		**1,470**
Net income per share	$	**0.10**	$	**0.02**	$	**0.11**

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 operating leases:

Year		Amount
2008		829
2009		854
2010		867
2011		882
2012		880
Thereafter		751
Total	$	5,063

FINANCIAL INSTRUMENTS

FOREIGN EXCHANGE CONTRACTS

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 arises from the payment of dividends on its common shares.

As of December 31, 2007, the Company is committed to deliver approximately $1.3 million monthly in exchange for approximately C$1.4 million for the contract period of January 2008 to June 2012 and $1.4 million monthly in exchange for approximately C$1.4 million for the contract period of June 2012 to December 2012, at stipulated exchange rates as follows:

Contract Dates	US$ to be delivered	Cdn$ to be received	Cdn$ per US$
January 2008 – June 2012	67,666	73,675	1.0888
June 2012 – December 2012	8,476	8,341	0.9840

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

Ventures, the promoter of the Company, 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 gain on foreign currency. The gain recognized was $0.5 million for the period from May 17, 2007 to December 31, 2007.

RELATED PARTY TRANSACTIONS

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

Ventures holds all of the Acquisitions Class B Units. Each 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 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 rate.

Ventures also holds all of the Subco Class B Units. Each 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 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, as promoter, received $15.8 million in net proceeds from the initial public offering (including the over-allotment option) and 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.

Included in accrued liabilities and other current liabilities is $0.5 million related to deferred Northstar Subco monthly distributions to Ventures and revolving credit facility fees. 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 and December 2007 was less than 110% of the initial full monthly dividends; accordingly, the payment of $0.5 million of the distributions due to Ventures on account of its Northstar Subco Class B Units has been deferred until twelve months following the month of deferral, provided at such time as the Company's 12-month trailing cash available for dividends exceeds 110% of the initial full monthly dividends.

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 100% 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 $423 for the period from May 17, 2007 to December 31, 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.

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 and provisions for potential liabilities, determination of net patient service revenues and income tax provisions.

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

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2008, the Company will be required to adopt two new CICA standards, Section 3862, Financial Instruments Disclosure and Section 3863, Financial Instruments Presentation, which will replace 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. The Company is currently evaluating the implications of these standards.

In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual and periods related to fiscal years beginning on or after October, 1, 2007. This section 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. This new standard is not expected to have a material effect on the Company's consolidated financial statements.

The CICA issued a new section 3031, "Inventories", in March 2007, which is based on International Accounting Standard 2. The new section replaced the existing section 3030, Inventories. Under the new section, 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 section also allows the reversal of any write-downs previously recognized. The new accounting standard and any consequential amendments will be effective for the Company beginning January 1, 2008. The Company is currently evaluating the implications of the new standard.

On January 31, 2008, the CICA issued a new accounting standard: Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 will replace 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.

In 2006, 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND DISCLOSURE CONTROLS

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO have designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared. The CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures and have concluded that they are adequate and effective as of December 31, 2007, based on such evaluation.

Common with many small businesses, such as the Northstar Partnerships, lack of segregation of duties, weakness in control environment and IT general control processes have, to date, been identified as areas where weakness exist. The existence of these weaknesses is to be compensated for by senior management monitoring. The Company is taking steps to augment and improve the design of procedures and controls impacting these areas of weakness over internal controls over financial reporting.

There has been no change in the design of the Company's internal control over financial reporting during the period from inception of operations on May 17, 2007 to December 31, 2007 that would materially affect or are reasonably likely to materially affect the Company's internal control over financial reporting other than the introduction of new reporting and trending software in the third quarter of 2007 described under "Three Months Ended December 31, 2007".

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We are exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar because the Company's operations and earnings are in U.S. dollars and the dividends will be paid in Canadian dollars. In order to minimize the impact of fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar, we have entered into Canadian dollar/U.S. dollar exchange contracts at a rate $1.0888 and $0.9840 for the total amount anticipated for dividends to common shareholders. The agreements consist of monthly forward foreign exchange contracts, of which 59 are still open as of December 31, 2007.

At December 31, 2007, we had unrealized foreign exchange gains on the open forward currency exchange contracts totalling $5.4 million. If the Company had liquidated the contracts and realized a gain, it would be exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar with respect to the dividends to the Common Shareholders.

RISK FACTORS

Please refer to the risk factors articulated in the Company's Annual Information Form for a list of the significant risk factors to which the Company is exposed.

OUTSTANDING SHARE DATA

At December 31, 2007, the Company had 13,900,852 Common Shares outstanding.

OUTLOOK

Healthcare delivery in the United States continues to be an issue receiving enormous attention in this presidential election year. The Democratic focus has been increasing access to care. The Republican focus is upon containment of costs. Experts predict that the demand for service will continue to increase as the population ages and technology continues to bring more procedures to the fore. Northstar's management believes that the Company is well positioned to benefit from that growth. Nonetheless, there will continue to be industry-wide pressures on reimbursement programs to limit the escalation in healthcare costs.

The Northstar ASCs added nine new surgeons to its medical staff during the three months ended December 31, 2007, an increase of 8.3% over the period ended September 30, 2007. In addition, the Palladium Partnership expects to further increase its complement of surgeon partners during 2008, which management believes contribute to increased revenues and profitability.

The Company is implementing a number of new programs and continues to recruit new surgeons to add to its medical staff. Spine surgery is rapidly evolving in the outpatient surgery centers. Palladium has recruited a leading neurosurgeon to develop its spine surgery program. We expect to begin performing these surgical procedures in Q2 of 2008. The outpatient spine program has great synergy with our pain management doctors who perform the diagnostic procedures in advance of the surgery. Palladium is enhancing its recruitment and training of primary care physicians who are interested in learning to perform pain management procedures at Palladium. Physicians who received their training at Palladium performed more than 50% of all pain management cases performed at Palladium in 2007. Sinus surgery continues to be an area of high profitability and consistent growth. Palladium saw an increase in its sinus surgery volume of 57.4% in 2007 compared with 2006. Palladium will continue its focus of recruiting additional sinus surgeons. Palladium expects to increase its physical plant by adding two new operating rooms in 2008.

Performance at the Kirby center has lagged that which we have seen at Palladium. We do expect to see the development of a spine program and the marketing of a hand surgery program in Q2 of 2008. The Kirby surgeons have adopted improved coding of their surgical cases and updates of fee schedules that will impact cash collections. Scheduling efficiencies have been recently implemented that will allow the Kirby center to improve throughput and to bring additional surgeons to the medical staff. At the end of 2007 there were 21 actively practicing surgeons at Kirby as compared with 10 surgeons at the time of IPO.

Offsetting these positive results were shifts among some of the surgeons to lower reimbursed cases. Management continues to monitor the leading indicators closely. We expect in 2008 to sign at least one network contract with a major insurance company as predicted volume increases would enhance profitability.

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

ADDITIONAL INFORMATION

Additional information relating to the Company, including the 2007 consolidated interim financial statements, and the audited consolidated financial statements and annual information form for the period from inception of operations on May 17, 2007 to December 31, 2007, is available on SEDAR at www.sedar.com.

March 17, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Northstar Healthcare Inc. (the "Corporation") and all the information in this annual report are the responsibility of the management of the Corporation. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate include management's best estimates and judgments. Management has reviewed the financial information presented throughout this report and has ensured it is consistent with the consolidated financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. In addition, management has reviewed the Corporation's disclosure controls and procedures, which are designed to ensure the quality and timeliness of the disclosures made to the public. A summary of the results of that review is included in Management's Discussion and Analysis.

The Board of Directors of the Corporation are responsible for ensuring that management fulfills its responsibilities for financial reporting and are ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through the Audit Committee. The Board of Directors of the Corporation appoints the Audit Committee and all of the members of the Audit Committee are independent members of the Board of Directors. The Audit Committee meets periodically with management and the shareholders' auditors to review internal controls, audit results and accounting principles. Acting on the recommendation of the Audit Committee, the consolidated financial statements are forwarded to the Board of Directors of the Corporation for their approval. BDO Dunwoody LLP, an independent firm of Chartered Accountants, has been appointed to express an independent professional opinion on the fairness of the consolidated financial statements. Their report is on page 25. BDO Dunwoody LLP has full and free access to the Audit Committee.

Donald L. Kramer, M.D.
Chief Executive Officer
Toronto, Ontario
March 10, 2008

Kenneth J. Klein, CPA
Chief Financial Officer

BDO Dunwoody LLP
Chartered Accountants
And Advisors

Royal Bank Plaza
P.O. Box 32
Toronto Ontario Canada M5J 2J8
Telephone: (416) 865-0200
Telefax: (416) 865-0887

www.bdo.ca

AUDITORS' REPORT

To the Shareholders of
Northstar Healthcare Inc.

We have audited the consolidated balance sheet of Northstar Healthcare Inc. as at December 31, 2007 and the consolidated statements of operations and comprehensive income, deficit, and cash flows for the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

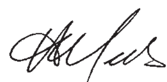
Toronto, Ontario
March 10, 2008

BDO Dunwoody LLP is a Limited Liability Partnership registered in Ontario

CONSOLIDATED BALANCE SHEET

(in thousands of U.S. dollars)	December 31, 2007
ASSETS	
Current assets:	
Cash and cash equivalents	$ 4,983
Accounts receivable	13,861
Medical supplies	507
Prepaid expenses and other current assets	668
	20,019
Long term:	
Property and equipment (Note 3)	5,561
Foreign currency exchange contracts (Note 4)	5,467
Intangible assets (Note 5)	9,076
Goodwill (Note 2)	139,443
Other assets	43
	159,590
TOTAL ASSETS	$ 179,609
LIABILITIES	
Current liabilities:	
Accounts payable	$ 1,075
Accrued liabilities and other current liabilities (Note 6)	2,653
Dividends payable	1,402
Income tax payable	227
	5,357
Future income tax liability (Note 7)	3,991
Other liabilities, non-controlling interest (Note 8)	28,200
	32,191
TOTAL LIABILITIES	37,548
Non-controlling interests (Note 9)	9,394
SHAREHOLDERS' EQUITY	
Share capital (Note 10)	139,718
Deficit	(7,051)
TOTAL SHAREHOLDERS' EQUITY	132,667
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 179,609

On behalf of the Board:



Robert P. Kanee, CA

Victor Wells, FCA

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

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands of U.S. dollars, except per share amounts)	Period from May 17, 2007 to December 31, 2007
NET PATIENT SERVICE REVENUE	$ 32,919
OPERATING EXPENSES	
Salaries and benefits	3,853
Drugs and supplies	2,528
General and administrative	4,136
Depreciation and amortization	1,079
	11,596
INCOME FROM OPERATIONS	21,323
OTHER EXPENSE (INCOME)	
Distributions, other liabilities, non-controlling interest (Note 8)	1,088
Withholding taxes	857
Change in fair value, other liabilities, non-controlling interest (Note 8)	10,236
Gain on foreign currency	(6,003)
State franchise tax	225
Other income	(82)
	6,321
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	15,002
INCOME TAX EXPENSE (Note 7)	
Current	227
Future	3,991
	4,218
NON-CONTROLLING INTERESTS (Note 9)	7,624
NET INCOME AND COMPREHENSIVE INCOME	$ 3,160
NET INCOME PER COMMON SHARE (BASIC AND DILUTED)	$ 0.23
Weighted average shares outstanding (basic and diluted)	13,749,756

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

CONSOLIDATED STATEMENT OF DEFICIT

(in thousands of U.S. dollars)	Period from May 17, 2007 to December 31, 2007
DEFICIT, BEGINNING OF PERIOD	$ –
Net income	3,160
Dividends	(10,211)
DEFICIT, END OF PERIOD	$ (7,051)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of U.S. dollars)		Period from May 17, 2007 to December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$	3,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		1,079
Future income tax expense		3,991
Gain on foreign currency exchange contracts		(6,003)
Non-controlling interests		7,624
Change in fair value of other liabilities, non-controlling interest		10,236
Changes in operating assets and liabilities		(1,782)
Cash flows provided by operating activities		18,305
CASH FLOWS FROM INVESTING ACTIVITIES:		
Business acquisition, net of cash acquired of $999		(138,719)
Purchase of property and equipment		(346)
Cash flows used in investing activities		(139,065)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Initial public offering and over-allotment proceeds of common shares, net of expenses		139,718
Distributions to non-controlling interest		(5,702)
Dividends paid		(8,273)
Cash flows provided by financing activities		125,743
NET CHANGE IN CASH AND CASH EQUIVALENTS		4,983
CASH AND CASH EQUIVALENTS, beginning of period		–
CASH AND CASH EQUIVALENTS, end of period	$	4,983

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

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.

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 on foreign currency. For the period ended December 31, 2007, we recognized gains on foreign currency exchange of $0.5 million.

(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.

(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.

The estimated useful lives for depreciation and amortization purposes are:

Assets	Estimated Useful Lives
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.

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.

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.

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

Going forward we will continue to 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) 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.

(m) 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.

(n) Financial Instruments

Our financial instruments and related classification consist of:

- 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
- Risk management contracts – foreign currency; derivative carried at fair value
- Dividends payable; other liabilities carried at amortized cost
- Other liabilities, non-controlling interest; other liability carried at redemption amount

We describe our estimate of the fair values of these instruments, our exposure to credit risk, and our accounting policies for risk management contracts in the following sections.

FAIR VALUE

We estimate that the fair values of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and other current liabilities approximate their carrying values due to the short maturities or other characteristics of these financial instruments.

We measure the fair value of risk management contracts and other liabilities, non-controlling interest at the end of each quarter.

CREDIT RISK

Our financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable, and risk management contracts. We are exposed to credit risk, as follows:

- Cash and cash equivalents – we maintain our cash in bank deposit accounts that, at times, may exceed U.S. and Canadian federally insured limits.
- Accounts receivable – we are exposed to credit risk from insurers and patients.

(o) Recent Accounting Pronouncements

i. Effective January 1, 2008, the Company will be required to adopt two new CICA standards, Section 3862, Financial Instruments Disclosure and Section 3863, Financial Instruments Presentation, which will replace 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. The Company is currently evaluating the implications of these standards.

ii. In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual and periods related to fiscal years beginning on or after October, 1, 2007. This section 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. This new standard is not expected to have a material effect on the Company's consolidated financial statements.

iii. The CICA issued a new section 3031, "Inventories", in March 2007, which is based on International Accounting Standard 2. The new section replaced the existing section 3030, Inventories. Under the new section, 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 section also allows the reversal of any write-downs previously recognized. The new accounting standard and any consequential amendments will be effective for the Company beginning January 1, 2008. The Company is currently evaluating the implications of the new standard.

iv. On January 31, 2008, the CICA issued a new accounting standard: Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 will replace 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.

v. In 2006, 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. BUSINESS ACQUISITION

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

Net Assets Acquired at Fair Value		
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)
		275
Goodwill		139,443
	$	139,718

In the fourth quarter, 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 3. PROPERTY AND EQUIPMENT

Item		Cost		Accumulated Depreciation		Net Book Value
Telephone equipment	$	26	$	21	$	5
Computer hardware		160		36		124
Computer software		119		6		113
Furniture and office equipment		194		27		167
Medical equipment		3,212		503		2,709
Leasehold improvements		2,666		223		2,443
Totals	$	6,377	$	816	$	5,561

The depreciation expense charged to operations was $816 the period from May 17, 2007 to December 31, 2007.

NOTE 4. 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 December 31, 2007, the Company is committed to deliver approximately $1.3 million monthly in exchange for approximately C$1.4 million for the contract period of January 2008 to June 2012 and $1.4 million monthly in exchange for approximately C$1.4 million for the contract period of June 2012 to December 2012, at stipulated exchange rates as follows:

Contract Dates	US$ to Be Delivered	Cdn$ to Be Received	Cdn$ per US$
January 2008 – June 2012	67,666	73,675	1.0888
June 2012 – December 2012	8,476	8,341	0.9840

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

Ventures, the promoter of the Company, 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 gain on foreign currency. The gain recognized was $0.5 million for the period from May 17, 2007 to December 31, 2007.

NOTE 5. INTANGIBLE ASSETS

Intangible Assets		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 lived intangible asset, thus not amortizable. The non-compete agreements are amortized over their estimated useful life of two years. Amortization for the period was $263 for the period from May 17, 2007 to December 31, 2007.

NOTE 6. RELATED PARTIES

Physicians who represent the non-controlling interests in the Northstar Partnerships, routinely provide independent professional services directly to patients utilizing the Northstar ASCs (See Note 9).

Ventures holds all of the Acquisitions Class B Units. Each 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 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 rate (See Note 8).

Ventures also holds all of the Subco Class B Units. Each 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 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, as promoter, received $15.8 million in net proceeds from the initial public offering (including the over-allotment option) and 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.

Included in accrued liabilities and other current liabilities is $0.5 million related to deferred Northstar Subco monthly distributions to Ventures and revolving credit facility fees. 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 and December 2007 was less than 110% of the initial full monthly dividends; accordingly, the payment of $0.5 million of the distributions due to Ventures on account of its Northstar 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 dividends.

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 100% 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 $423 for the period from May 17, 2007 to December 31, 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 7. 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.

	Period from May 17, 2007 to December 31, 2007
Income before income taxes and non-controlling interests	$ 15,002
U.S. federal income tax rate	35%
Expected U.S. federal income tax expense	5,251
Permanent differences:	
Intercompany note interest expense	(2,290)
Change in fair value of non-controlling interest	3,583
Non-controlling interest	(2,668)
Other	342
Total income taxes	$ 4,218

We have reduced our taxable income and, therefore, our calculation of income tax expense by interest expense on intercompany notes that bear interest at 11.1% and are eliminated in consolidation. The interest expense on these notes was $7,695 for the period from May 17, 2007 to December 31, 2007.

(b) Future Income Tax Assets and Liabilities

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.

	December 31, 2007
Future income tax liabilities:	
Goodwill	$ (2,034)
Gain on foreign currency	(1,913)
Intangibles	(44)
Net future income tax liability	$ (3,991)

NOTE 8. 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 Northstar 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. Northstar 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 Northstar Subco.

If within 60 days of receipt of the request by Ventures to purchase the Subco Class B Units, Northstar 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 it best efforts to negotiate the purchase and the Company fails to agree on a purchase price, or (iii) within 60 days of the request, Northstar 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 with 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 $10,236 change in the fair value of other liabilities, non-controlling interest 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 an expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures that is described above.

NOTE 9. NON-CONTROLLING INTERESTS

Non-controlling interests at December 31, 2007 represents a 30% interest in the Palladium Partnership and a 40% interest in the Kirby Partnership, which are owned by the physician limited partners who practice at the Northstar ASCs. Non-controlling interests also includes the Acquisitions Class B Units held by Ventures. Non-controlling interests for the period from May 17, 2007 to December 31, 2007 was $7,369 and $255, for the physician limited partners and Ventures, respectively.

NOTE 10. 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.

NOTE 11. 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 $585 for the period from May 17, 2007 to December 31, 2007.

We summarize our future minimum payments under operating leases in the following table:

Year		Amount
2008		829
2009		854
2010		867
2011		882
2012		880
Thereafter		751
Total	$	5,063

NOTE 12. EMPLOYEE RETIREMENT, SAVINGS PLAN, AND BENEFITS

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 $33 for the period from May 17, 2007 to December 31, 2007.

NOTE 13. BUSINESS SEGMENT INFORMATION

We operate in one reportable business segment and one geographic location and we operate only in the United States.

SHAREHOLDER INFORMATION

Head Office
4120 Southwest Freeway
Suite 150
Houston, TX 77027
Tel: 713.355.8614
Fax: 713.355.8615

Transfer Agent and Registrar
CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, ON
M5C 2W9
Tel: 800.387.0825 or 416.643.5500
Fax: 416.643.5501

Stock Exchange Listing
Toronto Stock Exchange
Trading symbol "NHC"

Common Shares Outstanding
13,900,852 (as at December 31, 2007)

General Counsel
Goodmans LLP

Auditors
BDO Dunwoody LLP

Investor Relations
info@northstar-healthcare.com
Tel: 416.447.4740

Website
www.northstar-healthcare.com

DIRECTORS AND SENIOR OFFICERS

DIRECTORS

Robert P. Kanee, CA, ICD.D [1,2*]
Chairman of the Board
Corporate Director

Donald L. Kramer, MD
Chief Executive Officer, Northstar Healthcare Inc.

Barry A. Tissenbaum, CA[1,2]
Corporate Director and Consultant

Victor A. Wells, FCA, ICD.D[1*,2]
Chief Financial Officer, Titanium Corporation

SENIOR OFFICERS

Donald L. Kramer, MD
Chief Executive Officer

Kenneth J. Klein, CPA
Chief Financial Officer

Brad Kovnat
Vice President, Business Operations

Stephanie Victorian
Vice President, Clinical Operations

1 Audit Committee
2 Compensation, Nominating and Corporate Governance Committee
* Denotes Chair

DESIGN: BRYAN MILLS IRADESSO WWW.BMIR.COM

Northstar Healthcare Inc.
Corporate Headquarters

4120 Southwest Freeway, Suite 150

Houston, TX 77027

Tel: 713.355.8614

Fax: 713.355.8615

Kirby Surgical Center – Houston

9300 Kirby Dr., Suite 100

Houston, TX 77054

Tel: 832.201.5157

Fax: 832.201.5158

The Palladium for Surgery – Houston

4120 Southwest Freeway, Suite 200

Houston, TX 77027

Tel: 713.355.8600

Fax: 713.355.8069

The Palladium for Surgery – Dallas

5920 Forest Park, Suite 700

Dallas, TX 75235

Tel: 214.350.2400

Fax: 214.352.4862

River Oaks Pain Management – Galleria

4120 Southwest Freeway, Suite 230

Houston, TX 77027

Tel: 713.355.1500

Fax: 713.629.1945

River Oaks Pain Management – Humble

20202 Highway 59 North, Suite 300

Humble, TX 77338

Tel: 281.548.7246

Fax: 281.548.7254

River Oaks Pain Management – Baytown

4721 Garth Road, Suite A-100

Baytown, TX 77521

Tel: 281.427.1460

Fax: 281.427.1480