NORTHSTAR HEALTHCARE

NORTHSTAR HEALTHCARE INC.

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

For the Three and Nine Months Ended September 30, 2008

The following management discussion and analysis of the financial condition and results of operations of Northstar Healthcare Inc. (the "Company" or "NHC") for the three and nine months ended September 30, 2008 is provided as of November 13, 2008. It is supplemental to, and should be read in conjunction with, the financial statements of the Company for the three and nine months ended September 30, 2008. 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, currency risks, natural disasters, competitive conditions and gross economic conditions.

Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking information, including, without limitation, general business risks inherent in the ASC industry, including changing surgeon and patient preferences, numerous federal, state and local laws, competition from other healthcare providers, payor mix and our dependence on payment from third-party payors, including private insurers, managed care organizations and government healthcare programs. For a description of risks that could cause our actual results to materially differ from our current expectations, please see section titled "Risk Factors" in NHC's Annual Information Form, dated March 31, 2008. 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 mo

PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated on March 16, 2007 and completed its initial public offering and acquisition of its subsidiaries on May 17, 2007. At the time of the Company's initial public offering, it acquired controlling interests in two distinct 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 the adjusted pro forma combined operating results of the Company for the period of January 1, 2007 to May 16, 2007 prior to the public offering. Certain figures disclosed in these adjusted pro forma combined operating results differ from the pro forma combined operating results previously disclosed in the Company's Business Acquisition Report, dated July 27, 2007, for the quarter 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.

In addition, the adjusted pro forma combined operating results for the period of January 1, 2007 to May 16, 2007 are not necessarily indicative of the results that would have actually occurred had the transaction been consummated at the dates indicated nor are they necessarily indicative of future operating results or the financial position of the Company, as the adjusted pro forma combined operating results excludes expenses related to being a public issuer, as well as expenses of Northstar Healthcare Acquisitions, L.L.C. ("Northstar Acquisitions"), the Company's operating subsidiary.

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 nine month ended September 30, 2008 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 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 Kirby Surgical Center.

Together, the Northstar ASCs have seven operating suites, three procedure or treatment rooms typically used by pain management specialists or for colonoscopies, 12 pre-operation beds, 17 post-operation or recovery beds and 169 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 orthopaedic surgery, podiatry surgery, ear, nose and throat ("ENT"), gastroenterology, pain management, and general surgery.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007

(in 000's of US $, except per share data)

(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Net patient service revenue	**$ 9,364**	**$ 12,508**
Operating expenses		
Salaries and benefits	1,757	1,544
Drugs and supplies	913	852
General and administrative	1,938	1,558
Depreciation and amortization	446	434
	5,054	4,388
Income from operations	**4,310**	**8,120**
Other expense (income)		
Distribution, other liabilities, non-controlling interest	338	433
Withholding tax	305	346
Change in fair value of other liabilities, non-controlling interest	(18,200)	7,333
(Gain) / loss on foreign currency	2,379	(4,014)
Goodwill and intangible asset impairment	78,941	-
State franchise tax	68	89
Other expense (income)	(17)	(36)
	63,814	4,151
Income (loss) before income taxes and non-controlling interest	**(59,504)**	**3,969**
Income tax expense		
Current	702	(1)
Future	(28,588)	839
	(27,886)	838
Non-controlling interests	1,753	2,809
Net income (loss) and comprehensive income (loss)	**$ (33,371)**	**$ 322**
Net income (loss) per common share		
Basic	**$ (2.40)**	**$ 0.02**
Diluted	**$ (2.39)**	**$ 0.02**
Weighted average number of shares and share equivalents outstanding		
Basic	**13,900,852**	**13,900,852**
Diluted	**13,952,347**	**13,900,852**

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.

As disclosed in Company's Management Discussion and Analysis for the third quarter of 2007, a $0.8 million adjustment in reduction was made to net patient service revenues for the forty-five day period ending June 30, 2007. The following analysis includes result from both before and after taking the adjustment.

Net patient service revenues for the three months ended September 30, 2008 totalled $9.4 million, a decrease of $3.1 million or 25.1%, compared to $12.5 million for the same period in 2007, after the adjustment for the forty-five day period ending June 30, 2007. Without the adjustment, net patient service revenues for the three months ended September 30, 2008 decreased by $3.9 million or 29.4% from $13.3 million for the same period in 2007. The 29.4% decrease in net patient service revenues was due to the combination of a 12.7% decrease in case volume and a 19.4% decrease in reimbursement rate per case due to the decline in the percentage of high payors primarily at the Kirby Partnership. The decrease in the number of cases was partially attributable to Tropical Storm Edouard and Hurricane Ike, which interrupted operations at both of the Northstar ASCs.

Salaries and benefits for the three months ended September 30, 2008 totalled $1.8 million, which exceeded the salaries and benefits for the three months ended September 30, 2007 by $0.2 million or 13.7%. The increase was partially attributable to the additional salaries and benefits for employees of Northstar Acquisitions, the Company's operating subsidiary, as the operation was not fully established in 2007. Salaries and benefits expense for Northstar Acquisitions was $0.4 million for the three months ended September 30, 2008. In addition, though the number of cases decreased during the third quarter of 2008 as a result of Tropical Storm Edouard and Hurricane Ike, the Company elected to pay employees even though the both Northstar ASCs were closed and the case volumes were low in the days following the storms.

Drugs and medical supplies for the three months ended September 30, 2008 increased by $0.1 million or 7.2% to $0.9 million from $0.9 million for the same period in 2007. This was due to an increase in the percentage of cases using high cost medical implants and disposables, such as orthopaedics and general surgery, which increased by 13.8% and 9.2%, respectively, in the 2008 period.

General and administrative expense for the three months ended September 30, 2008 totalled $1.9 million, which exceeded the prior year period by $0.3 million, or 24.4%. The majority of these general and administrative expenses, including legal, accounting, consulting, insurance, RSU and DSU and directors' and officers' compensation, relate to expenses associated with being a reporting issuer in Canada

Distributions, other liabilities, and non-controlling interest totalled $0.3 million, withholding tax totalled $0.3 million, change in fair value of other liabilities, non-controlling interest totalled $18.2 million, loss on foreign currency exchange contracts totalled $2.4 million, goodwill and intangible asset impairment totalled $78.9 million and non-controlling interests amounted to $1.8 million based on percentage of minority interests owned by the physician limited partners and Healthcare Ventures Ltd. ("Ventures").

The $10.5 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, L.L.C. ("Northstar Subco") held by Ventures. The fair value was based on an external appraisal incorporating the discounted cash flow method as of September 30, 2008. This item is recorded as an income or expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures, which entitles it to request at any time after May 17, 2010 that Northstar Subco enter into good faith negotiations to purchase for cancellation all or any portion of the Class B Units of Northstar Subco held by Ventures. The price paid for such Northstar Subco Class B Units will be equal to their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Acquisitions. Northstar Acquisitions will purchase for cancellation all outstanding Class B Units of Northstar Acquisitions for a nominal amount on the date that all outstanding Class B Units of Northstar Subco have been purchased for cancellation from Ventures by Northstar Subco.

The $2.4 million loss in foreign currency exchange contracts relates to the change during the period in the 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. This loss was 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. In September 2008, a $0.7 million gain was recognized at the sale of approximately 40% of the Company's foreign currency exchange contracts due to NHC's reduction in the monthly dividend from C$0.10 to C$0.058.

The Company recognized a $78.9 million goodwill and intangible asset impairment, which consisted of $77.4 million from goodwill and $1.5 million from intangible asset impairment, for the three month ended September 30, 2008. Since March 2008, management has closely monitored trends in budget to actual results on a quarterly basis to determine if an impairment trigger was present that would warrant a reassessment of the recoverability of the carrying amount of goodwill prior to the required annual impairment test. During the three months ended September 30, 2008, as a result of the continued impact in the negative shift in payor mix, which resulted in lower then forecasted net patient service revenues and cash flow generation, the Company announced a reduction in the monthly dividend to shareholders from C$0.10 to C$0.058, effective for the September 2008 dividend. As a result of these unfavourable operating conditions and the near term outlook, the Company performed an interim preliminary impairment test in connection with the preparation of our consolidated financial statements for the three and nine months ended September 30, 2008. The Company engaged an independent valuation firm to determine if goodwill was impaired, based primarily on discounted cash flows. Based on this preliminary assessment as of September 30, 2008, management determined that the carrying value of goodwill exceeded its estimated fair value and recorded a $77.4 million pre-tax impairment charge. The impairment recorded is preliminary and is subject to change once the final valuation is completed during the fourth quarter of 2008.

Based on the same preliminary assessment as of September 30, 2008, the Company determined that the carrying value of the Medicare licenses intangible exceeded its estimated fair value and recorded a $1.5 million pre-tax impairment charge. The impairment recorded is preliminary and is subject to change once the final valuation is completed during the fourth quarter of 2008.

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

RESULTS OF OPERATIONS COMMON SIZED FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007
(Unaudited)

	Three Months Ended September 30, 2008	**Three Months Ended September 30, 2007**
Net patient service revenue	**100.0%**	**100.0%**
Operating expenses		
Salaries and benefits	18.8%	12.3%
Drugs and supplies	9.8%	6.8%
General and administrative	20.7%	12.5%
Depreciation and amortization	4.8%	3.5%
	54.0%	35.1%
Income from operations	**46.0%**	**64.9%**

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Other expense (income)		
Distribution, other liabilities, non-controlling interest……………..	3.6%	3.5%
Withholding tax………………………………………………………	3.3%	2.8%
Change in fair value of other liabilities, non-controlling interest….	-194.4%	58.6%
(Gain) / loss on foreign currency…………………………………..	25.4%	-32.1%
Goodwill and intangible asset impairment…...……………………….	843.0%	0.0%
State franchise tax……………………………………………………	0.7%	0.7%
Other expense (income)………………………………………………..	-0.2%	-0.3%
	681.5%	33.2%
Income (loss) before income taxes and non-controlling interest ………	**-635.5%**	**31.7%**
Income tax expense		
Current………………………………………………………………..	7.5%	0.0%
Future………………………………………………………………	-305.3%	6.7%
	-297.8%	6.7%
Non-controlling interests………………………………………………	18.7%	22.5%
Net income (loss) and comprehensive income (loss)………………………	**-356.4%**	**2.5%**

NET PATIENT SERVICE REVENUES BY PAYOR MIX OF THE NORTHSTAR ASCS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Financial Class	Q3 2008 Net Patient Service Revenue by Payor Mix	Q3 2007 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay……	91.5%	92.5%
Workers compensation……………………..…	4.9%	4.3%
Medicare/Medicaid…………………………..	1.4%	1.2%
Other…………………………………………	2.2%	2.0%
Total…………………………………………	**100.0%**	**100.0%**

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

Reimbursement is the highest from patients with private insurance and other private payment sources and lowest from patients with Medicare/Medicaid.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Specialty	Q3 2008 Cases	Q3 2008 Percentage of Cases	Q3 2008 Procedures	Q3 2008 Percentage of Procedures	Q3 2007 Cases	Q3 2007 Percentage of Cases	Q3 2007 Procedures	Q3 2007 Percentage of Procedures
Pain Management…………	1,065	48.0%	5,769	64.7%	1,481	58.3%	9,025	72.6%
Orthopaedics………………	554	25.0%	1,450	16.2%	487	19.2%	1,283	10.3%
Podiatry……………………	139	6.3%	520	5.8%	167	6.6%	668	5.4%
Gastro-intestinal…………..	208	9.4%	208	2.3%	155	6.0%	241	1.9%
General Surgery……………	107	4.7%	250	2.8%	98	3.9%	332	2.7%
ENT………………………..	146	6.6%	732	8.2%	153	6.0%	889	7.1%
Total………………………	**2,219**	**100.0%**	**8,929**	**100.0%**	**2,541**	**100.0%**	**12,438**	**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 for the 2007 period. This change in the number of procedures has no effect 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.

The Company has provided a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Palladium Partnership and the Kirby Partnership for the three-month period ended September 30, 2008 compared with the same period in the prior year. This information is not intended to provide a comprehensive comparison of financial results, as gross billings and net patient service revenues vary by patient, insurance carrier and procedure.

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

Total cases for the three months ended September 30, 2008 were 2,219, a decrease of 322 cases from the 2,541 cases in the same period in 2007. Case increases in orthopaedics, gastro-intestinal, and general surgery specialties were offset by decreases in pain management, podiatry, and ear, nose and throat (ENT) specialties. The decrease in case volume for the three months ended September 30, 2008 was primarily caused by the inclement weather from Tropical Storm Edouard in August and Hurricane Ike in September. Both Northstar ASCs were closed for one day due to Tropical Storm Edouard, although the centers managed to reschedule most of the cases that had been cancelled as a result. The impact of Hurricane Ike on both the Houston region and the Northstar ASCs was more severe, with the Kirby Partnership closing for two days and the Palladium Partnership closing for three days. In the Houston metro area, more than 1.2 million people evacuated before Hurricane Ike's landfall on September 13, 2008. The hurricane knocked out power to more than 2 million metered customers of the 2.2 million customers of the city's largest electrical provider. Two weeks later, over half of those customers were still without electrical services. Those included some of Company's patients, staff and physicians' offices.

Procedure volume for the three months ended September 30, 2008 decreased by 28.2% from 12,438 to 8,929 in the prior year period. Since case reimbursement is based on case type, the decrease in the number of procedures per case has no effect on reimbursement and net patient service revenues per case.

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND THE THREE MONTHS ENDED SEPTEMBER 30, 2007
(in 000's of US $, except per share data)
(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Net patient service revenue……………………………………..	$ 9,364	$ 12,508
Net income (loss) and comprehensive income (loss)………	$ (33,371)	$ 322
Add:		
Depreciation and amortization…………………………………	446	434
Change in fair value of other liabilities, non-controlling interest………………………………………………………	(18,200)	7,333
(Gain)/ loss on foreign currency exchange contracts……….	3,090	(4,014)
Goodwill and intangible asset impairment…..………………	78,941	-
Income tax (current&future)………………………………..	(27,886)	838
Adjusted EBITDA ……………………………………………	**3,020**	**4,913**
Less:		
Capital expenditures…………………………………………	(71)	(97)
Adjusted EBITDA net of capital expenditures……..……...	**$ 2,949**	**$ 4,816**
Adjusted EBITDA margin net of capital expenditures……..	31.5%	38.5%

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 TO THE ADJUSTED PRO FORMA COMBINED RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

(in 000's of US $, except per share data)
(Unaudited)

	Nine Months Ended September 30, 2008	Adjusted Pro forma Combined January 1, 2007 to May 16, 2007	Inception, May 17, 2007 to September 30, 2007	Adjusted Pro forma Combined Nine Months Ended September 30, 2007
Net patient service revenue……………………………………….	**$ 31,243**	**$ 17,306**	**$ 19,326**	**$ 36,632**
Operating expenses				
Salaries and benefits……………………..…………………………	4,951	1,945	2,293	4,238
Drugs and supplies……………………..……………………….	2,724	1,378	1,355	2,733
General and administrative……………………….…………..	5,648	1,753	2,151	3,904
Depreciation and amortization……………………………………	1,333	611	636	1,247
	14,656	5,687	6,435	12,122
Income from operations	**16,587**	**11,619**	**12,891**	**24,510**
Other expense (income)				
Distribution, other liabilities, non-controlling interest……………	1,199	821	655	1,476
Withholding tax……………………………………………………	996	575	512	1,087
Change in fair value of other liabilities, non-controlling interest	(19,000)	-	10,382	10,382
(Gain) / loss on foreign currency…………………………………	3,624	-	(6,358)	(6,358)
Goodwill and intangible asset impairment…...……………………	78,941	-	-	-
State franchise tax………………………………………………..	211	-	138	138
Other expense (income)…………………………………………..	(64)	19	(45)	(26)
	65,907	1,415	5,284	6,699
Income (loss) before income taxes and non-controlling interest……..	**(49,320)**	**10,204**	**7,607**	**17,811**
Income tax expense				
Current…………………………………………………………….	373	(60)	133	73
Future……………………………………………………………..	(27,605)	1,245	1,249	2,494
	(27,232)	1,185	1,382	2,567
Non-controlling interests………………………………………………	6,291	3,420	4,534	7,954
Net income (loss) and comprehensive income (loss)…………………..	**$ (28,379)**	**$ 5,599**	**$ 1,691**	**$ 7,290**
Net income (loss) per common share				
Basic………..………………………………………………………	**$ (2.04)**	**$ -**	**$ 0.12**	**$ -**
Diluted…………………………………………..…………………	**$ (2.04)**	**$ -**	**$ 0.12**	**$ -**
Weighted average number of shares and share equivalents outstanding				
Basic………..………………………………………………………	**13,900,852**	**-**	**13,647,544**	**-**
Diluted…………………………………………..…………………	**13,922,625**	**-**	**13,647,544**	**-**

Net patient service revenues for the nine months ended September 30, 2008 totalled $31.2 million, a decrease of $5.4 million or 14.8% compared to $36.6 million for the adjusted pro forma combined nine months ended September 30, 2007. The decrease was a result of 213 or a 2.9% decrease in case volume and a 12% decrease in reimbursement rate per case due to the decline in the percentage of high payors primarily at the Kirby Partnership. In addition, the decrease in the number of cases was attributable to Tropical Storm Edouard and Hurricane Ike which interrupted operations at both of the Northstar ASCs.

Salaries and benefits for the nine months ended September 30, 2008 totalled $5.0 million, which exceeded the salaries and benefits for the adjusted pro forma combined nine months ended September 30, 2007 by $0.7 million or 16.6%. The increase was due to the inclusion of salaries and benefits for the additional employees at Northstar Acquisitions, the Company's operating subsidiary (as such salaries and benefits were only included in the pro forma combined results for the period of May 17, 2007 to September 30, 2007). This expense was $1.0 million for the nine months ended September 30, 2008.

Drugs and medical supplies for the nine months ended September 30, 2008 were materially unchanged from the adjusted pro forma combined nine months ended September 30, 2007. A decrease in cases from specialties that have lower supply costs, such as pain management, was offset by the increases in the number of cases with high supply costs, such as orthopaedics and general surgery.

General and administrative expense for the nine months ended September 30, 2008 totalled $5.6 million, which exceeded the general and administrative expense for the adjusted pro forma nine months ended September 30, 2007 by $1.7 million, or 43.5%. The majority of these general and administrative expenses, including legal, accounting, insurance, RSU and DSU and directors' and officers' compensation, relate to expenses associated with being a reporting issuer in Canada. In addition, the company incurred additional costs related to recruitment of the Company's first Chief Operating Officer and two new members of the Board of Directors as well as additional common area maintenance expense.

Distributions, other liabilities, and non-controlling interest totalled $1.2 million, withholding tax totalled $1.0 million, change in fair value of other liabilities non-controlling interest totalled $19.0 million, loss on foreign currency exchange contracts totalled $3.6 million, goodwill and intangible asset impairment totalled $78.9 million and non-controlling interests amounted to $6.3 million based on percentage of minority interests owned by the physician limited partners and Ventures.

The $11.3 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. The fair value was based on an external appraisal incorporating the discounted cash flow method as at September 30, 2008. This item is recorded as an income or expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures, which entitles it to request at any time after May 17, 2010 that Northstar Subco enter into good faith negotiations to purchase for cancellation of all or any portion of the Class B Units of Northstar Subco held by Ventures. The price paid for such Northstar Subco Class B Units will be equal to their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Acquisitions. Northstar Acquisitions will purchase for cancellation of all outstanding Class B Units of Northstar Acquisitions for a nominal amount on the date that all outstanding Class B Units of Northstar Subco have been purchased for cancellation from Ventures by Northstar Subco.

The loss on foreign currency exchange contracts of $3.6 million relates to the change during the period in the 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. This loss was 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. In September 2008, a $0.7 million gain was recognized on the sale of approximately 40% of the Company's foreign currency exchange contracts as a result of NHC's reduction in the monthly dividend from C$0.10 to C$0.058.

The Company recognized a $78.9 million goodwill and intangible asset impairment, which consisted of $77.4 million from goodwill and $1.5 million from intangible asset impairment, for the nine month ended September 30, 2008. Since March 2008, management has closely monitored trends in budget to actual results on a quarterly basis to determine if an impairment trigger was present that would warrant a reassessment of the recoverability of the carrying amount of goodwill prior to the required annual impairment test. During the three months ended September 30, 2008, as a result of the continued impact in the negative shift in payor mix, which resulted in lower then forecasted net patient service revenues and cash flow generation, the Company announced a reduction in the monthly dividend to shareholders from C$0.10 to C$0.058, effective for the September 2008 dividend. As a result of these unfavourable operating conditions and the near term outlook, the Company performed an interim preliminary impairment test in connection with the preparation of our consolidated financial statements for the three and nine months ended September 30, 2008. The Company engaged an independent valuation firm to determine if goodwill was impaired, based primarily on discounted cash flows. Based on this preliminary assessment as of

September 30, 2008, management determined that the carrying value of goodwill exceeded its estimated fair value and recorded a $77.4 million pre-tax impairment charge. The impairment recorded is preliminary and is subject to change once the final valuation is completed during the fourth quarter of 2008.

Based on the same preliminary assessment as of September 30, 2008, the Company determined that the carrying value of the Medicare licenses intangible exceeded its estimated fair value and recorded a $1.5 million pre-tax impairment charge. The impairment recorded is preliminary and is subject to change once the final valuation is completed during the fourth quarter of 2008.

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

RESULTS OF OPERATIONS COMMON SIZED FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

(Unaudited)

	Nine Months Ended September 30, 2008	Adjusted Pro forma Combined January 1, 2007 to May 16, 2007	Inception, May 17, 2007 to September 30, 2007	Adjusted Pro forma Combined Nine Months Ended September 30, 2008
Net patient service revenue……	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Operating expenses				
Salaries and benefits……	15.8%	11.2%	11.9%	11.6%
Drugs and supplies……	8.7%	8.0%	7.0%	7.5%
General and administrative……	18.1%	10.1%	11.1%	10.7%
Depreciation and amortization……	4.3%	3.5%	3.3%	3.4%
	46.9%	32.9%	33.3%	33.1%
Income from operations	**53.1%**	**67.1%**	**66.7%**	**66.9%**
Other expense (income)				
Distribution, other liabilities, non-controlling interest……	3.8%	4.7%	3.4%	4.0%
Withholding tax……	3.2%	3.3%	2.6%	3.0%
Change in fair value of other liabilities, non-controlling interest……	-60.8%	0.0%	53.7%	28.3%
(Gain) / loss on foreign currency……	11.6%	0.0%	-32.9%	-17.4%
Goodwill and intangible asset impairment……	252.7%	0.0%	0.0%	0.0%
State franchise tax……	0.7%	0.0%	0.7%	0.4%
Other expense (income)……	-0.2%	0.1%	-0.2%	-0.1%
	211.0%	8.2%	27.3%	18.3%
Income (loss) before income taxes and non-controlling interest…	**23.9%**	**59.0%**	**39.4%**	**48.6%**
Income tax expense				
Current……	1.2%	-0.3%	0.7%	0.2%
Future……	-88.4%	7.2%	6.5%	6.8%
	-87.2%	6.8%	7.2%	7.0%
Non-controlling interests……	20.1%	19.8%	23.5%	21.7%
Net income (loss) and comprehensive income (loss)……	**-90.8%**	**32.4%**	**8.8%**	**19.9%**

NET PATIENT SERVICE REVENUES BY PAYOR MIX OF THE NORTHSTAR ASCS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Financial Class	Q3 2008 Net Patient Service Revenue by Payor Mix	Q3 2007 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay..	91.5%	92.5%
Workers compensation…………………….....	4.9%	4.3%
Medicare/Medicaid…………………………..	1.4%	1.2%
Other……………………………………………	2.2%	2.0%
Total……………………………………………	**100.0%**	**100.0%**

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

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Specialty	2008 Cases YTD	2008 Percentage of Cases YTD	2008 Procedures YTD

Procedure volume for the nine months ended September 30, 2008 decreased by 11.3% from 34,721 to 30,809 in the same prior year period. Since case reimbursement is based on case type, the decrease in the number of procedures per case has no effect on reimbursement and net patient service revenues per case.

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 TO THE ADJUSTED PRO FORMA COMBINED RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

(in 000's of US $, except per share data)
(Unaudited)

	Nine Months Ended September 30, 2008	Adjusted Pro forma Combined January 1, 2007 to May 16, 2007	Inception, May 17, 2007 to September 30, 2007	Adjusted Pro forma Combined Nine Months Ended September 30, 2007
Net patient service revenue…………………………………..	$ 31,243	$ 17,306	$ 19,326	$ 36,632
Net income (loss) and comprehensive income (loss)………	$ (28,379)	$ 5,599	$ 1,691	$ 7,290
Add:				
Depreciation and amortization……………………………..…..	1,333	611	636	1,247
Change in fair value of other liabilities, non-controlling interest………………………………………………………	(19,000)	-	10,382	10,382
(Gain)/ loss on foreign currency exchange contracts………..	4,335	-	(6,358)	(6,358)
Goodwill and intangible asset impairment…...…………………	78,941	-	-	-
Income tax (current&future)…………………...…………….	(27,232)	1,185	1,382	2,567
Adjusted EBITDA ……………………………………….…...	**9,998**	**7,395**	**7,733**	**15,128**
Less:				
Capital expenditures……………………………………………	(312)	(89)	(157)	(246)
Adjusted EBITDA net of capital expenditures…….……….	**$ 9,686**	**$ 7,306**	**$ 7,576**	**$ 14,882**
Adjusted EBITDA margin net of capital expenditures……..	31.0%	42.2%	39.2%	40.6%

(1) Cash available to the Company to pay dividends for the nine months ended September 30, 2008 is $0.4 million less than Adjusted EBITDA net of capital expenditures.

(2) Cash available to the Company to pay dividends for the nine months ended September 30, 2007 is $0.1 million less than Adjusted EBITDA net of capital expenditures.

Adjusted EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the nine months ended September 30, 2008 was $10 million. Cash dividends declared for the nine months ended September 30, 2008 totalled $11.0 million or $0.788 (Cdn $0.86) per Common Share.

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 Partnerships, which are the source of financing for its operations and for meeting its contractual obligations. A majority of the Northstar Partnerships' 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 av

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 arise from the payment of dividends on its Common Shares.

As of September 30, 2008, the Company is committed to deliver approximately $0.8 million monthly in exchange for approximately C$0.9 million for the contract period of October 2008 to June 2012; $0.9 million monthly in exchange for approximately C$0.9 million for the contract period of July 2012 to June 2013 at the following stipulated exchange rates:

Contract Dates	US$ to be delivered (in 000's)	Cdn$ to be received (in 000's)	Cdn$ per US$
October 2008 – June 2012	35,544	37,840	1.0888

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 paid a one-time commitment fee equal to 0.5% of the full amount of the credit facility, and will pay a fee equal to 0.25% per annum on all amounts not drawn on the credit facility. To date, no amounts have been drawn on the credit facility.

Ventures has also provided cash collateral of $5.0 million as required to support the foreign currency arrangement. Ventures received a fee equal to 1.0% of the amount of cash collateral provided at closing of the initial public offering on May 17, 2007. The cash collateral remains the property of Ventures and all income earned thereon is for the benefit of Ventures.

ADOPTING OF NEW ACCOUNTING STANDARDS AND DEVELOPMENTS

Recent Accounting Pronouncements

On January 31, 2008, the CICA issued a new accounting standard: Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 replaces Handbook Section 3062 Goodwill and Other Intangible Assets and Handbook Section 3450 Research and Development Costs. Section 3064 establishes standards for recognition, measurement and disclosure of goodwill and intangible assets. This new standard will be effective for the Company in the first Quarter of 2009. The Company is currently evaluating the implications of this new standard.

In 2008, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The Company will be required to report using the converged standards

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 Interim CEO and CFO have designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. The Interim 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 September 30, 2008, based on such evaluation.

Common with many small businesses, such as the Northstar ASCs, 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 compensated 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 three and nine months ended September 30, 2008, that would materially effect or are reasonably likely to materially effect the Company's internal control over financial reporting.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company is 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, NHC entered into Canadian dollar/U.S. dollar exchange contracts at a rate of US$1 = C$1.0888 until June 2012, US$1 = C$0.9840 for the period from July 2012 until December 2012, and US$1 = C$1.0003 for the period from January 2013 until June 2013 for the total amount anticipated for dividends to common shareholders. The agreements consist of monthly forward foreign exchange contracts, of which 57 are open as of September 30, 2008.

At September 30, 2008, NHC had unrealized foreign exchange gains on the open forward currency exchange contracts, which had a value of $0.2 million based on the open spot rate as of September 30, 2008. 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, dated March 31, 2008, for a list of the significant risk factors to which the Company is exposed.

OUTSTANDING SHARE DATA

At September 30, 2008, the Company had 13,900,852 Common Shares outstanding.

OUTLOOK

The Company continues to face challenges from organic growth, payor mix decline, pressures on reimbursement, physician recruitment and leadership establishment. In addition, Tropical Storm Edouard and Hurricane Ike, the U.S. economy and the U.S. political elections provide additional challenging conditions and uncertainty to the Company and U.S. healthcare.

Case volumes decreased 12.7% at the Northstar ASCs during the third quarter 2008 from the same period in 2007. The projected growth was dampened by the temporary pullback on consumer's healthcare spending due to economic inflation and slowdown and service interruption from inclement weather in August and September 2008. Around Houston-metro area, average regular gasoline cost increased 37.7% from $2.57 per gallon in September 2007 to $3.54 per gallon in September 2008. The ripple effect also created inflationary pressure on other consumer services and products. The overall Consumer Price Index for Houston-metro area increased 3.6% during the first six-month period from 2007 to 2008, before seasonal adjustment. Although Houston had fared better then other metropolitan cities around the nation because of its energy industry, the overall local economy was still aversely impacted as the unemployment rate had steadily increased to 4.9%, 5.0%, and 5.1% in July, August, and September 2008, respectively, from 4.6%, 4.3%, and 4.3% in July, August, and September 2007, respectively. As the majority of the surgeries performed at Northstar ASCs are acute-elective surgery - acute injuries or illnesses not requiring emergency treatment – patients have the option, if necessary, to delay the procedures in order to cut their spending or in the event of unemployment. However, management believes that this will be a temporary phenomenon as those injuries and illnesses eventually require treatment.

The Company plans to continuously invest in its marketing initiative as previously discussed for recruiting qualified physicians to capture potential case increases as the economy and inflation improve. For the three months ended September 30, 2008, the Palladium Partnership successfully recruited 5 physicians and 1 physician was recruited to the Kirby Partnership.

During the reporting period, operations were interrupted at both the Northstar ASCs because of tropical storm Edouard and hurricane Ike. While both centers rescheduled most of the cases cancelled in the event of Edouard, interruption to basic city infrastructures and personal dwellings hindered our patients' ability to follow through with elective surgery. Management expects a portion of the cases scheduled in September to be performed in the fourth quarter, especially before the end of benefit year, but expect that a significant number of previously scheduled cases as well as previously projected fourth-quarter cases will be postponed to 2009 due to recovery from the hurricane.

A decline in the percentage of cases reimbursed at higher rates is the other factor for the negative growth in net patient service revenues between 2007 and 2008. However, with the coding education previously discussed, revenue cycle in

On September 22, 2008, the Company announced a strategic realignment under which the Company is strengthening its executive team with the appointment of Silvano (Syl) Ghirardi as Interim CEO. Dr. Donald Kramer, co-founder of Northstar and CEO since the company's initial public offering, remains actively involved with the company, as Vice Chairman for Medical Affairs. In this role he will focus his full attention on driving organic revenue growth through higher case volumes in the company's two ASCs. This management realignment enables Northstar to benefit more meaningfully from Dr. Kramer's experience in surgeon recruitment, ASC marketing and relationships with medical staff.

As disclosed in the Company's MD&A for the third quarter of 2007, 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 accounts receivable for those periods. The Company is currently in discussions with the physician limited