Interim Consolidated Financial Statements of

Second Quarter 2007 – From the Inception of Operations on May 17, 2007 to June 30, 2007

(Unaudited)

Northstar Healthcare Inc.

Unaudited Consolidated Financial Statements

June 30, 2007

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Interim Consolidated Balance Sheet
(in thousands of U.S. dollars)
(Unaudited)

Cash and cash equivalents	$	3,910
Accounts receivable		16,380
Inventory		484
Prepaid expenses and other current assets		722
		21,496
Long term		
Property and equipment (Note 3)		6,097
Foreign currency exchange contracts (Note 6)		2,344
Intangible assets (Note 4)		7,586
Goodwill		138,975
Other assets		47
		155,049
	$	176,545
Accounts payable	$	816
Dividends payable		1,890
Income tax payable		133
Accrued liabilities and other current liabilities		2,141
		4,980
Future income tax liability (Note 10)		410
Other liabilities, non-controlling interest (Note 8)		21,013
		21,423
Non-controlling interests (Note 9)		10,945
Share capital (Note 7)		139,718
Deficit		(521)
		139,197
	$	176,545

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

Interim Consolidated Statement of Operations and Deficit
(in thousands of U.S. dollars)
(unaudited)

....	$	6,818
Salaries and benefits		749
Drugs and supplies		503
General and administrative		592
Depreciation and amortization		202
		2,046
....		
Distributions, non-controlling interest		222
Withholding taxes		167
Change in fair value, other liabilities, non-controlling interest (Note 8)		3,050
Unrealized gain on foreign currency		(2,344)
State franchise tax		49
Other income		(9)
		1,135
....		
Current		133
Future		410
		543
....		1,725
....	$	
Dividends		(1,890)
Deficit, end of period		
Net income per common share (basic and diluted)		
Weighted average shares outstanding (basic and diluted)		13,117,899

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

Interim Consolidated Statement of Cash Flows
(in thousands of U.S. dollars)
(unaudited)

Net income	$	1,369
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		202
Income tax expense		543
Unrealized gain on foreign currency exchange contracts		(2,344)
Non-controlling interests		1,725
Change in fair value of other liabilities, non-controlling interest		3,050
Changes in operating assets and liabilities (Note 2)		(1,575)
Cash Flows Provided By Operating Activities		
Business acquisition, net of cash acquired of $999		(138,719)
Purchase of property and equipment		(59)
Cash Flows Used In Investing Activities		( )
Initial public offering and over-allotment proceeds of common shares, net of expenses		139,718
Cash Flows Provided By Financing Activities		
		3,910
, beginning of period		–
, end of period	$	

The accompanying notes are an integral part of the interim 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 and 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, LLP (the "Palladium Partnership") and a 60% partnership interest in Medical Ambulatory Surgical Suites, LLP (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.

(a) The consolidated financial statements of the Company are prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Northstar ASCs and management contracts are located in Texas, therefore all amounts are in U.S. dollars, unless otherwise noted.

(b) 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.

(c) 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 and 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.

(d) Foreign Exchange Exposure

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.

(e) Financial Statements

The consolidated financial statements contained in this report are as at and for the forty-five day period ended June 30, 2007. All financial information in this report is presented in U.S. dollars, unless otherwise noted. The financial statements contained in this report are unaudited and, in the opinion of management, contain all adjustments necessary for a fair presentation of the financial position, operating results and cash flows for the period presented. These adjustments are normal and recurring in nature.

(f) 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.

(g) Accounts Receivable

On a periodic basis, the Company evaluates its accounts receivables based on the history of past write–offs and collections and current credit conditions and adjusts 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.

(h) Inventory

Inventory consists of various medical supplies and is valued at the lower of cost or net realizable value on the first-in, first-out method.

(i) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the useful lives of the related assets. The Company is amortizing the fair value of Property and Equipment over the remaining estimated useful lives remaining per the records of the acquired Northstar ASCs. 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:

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

(j) Goodwill

Goodwill represents the difference between the price we paid for our interests in 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.

In calculating the implied fair value of goodwill, the fair value is allocated to all of the other assets and liabilities based on their fair values. The excess of the fair value over the amount assigned to other assets and liabilities is implied fair value of goodwill. We would record an impairment loss if the carrying amount of goodwill exceeded its implied fair value.

(k) Intangible Assets

Intangible assets primarily include the value of certain Physician Partner Contracts and are amortized over their estimated life of 19 years.

(l) 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 the recoverability 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

(o) 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.

(p) Earnings Per Share

We calculate net income per Common Share by dividing our reported net income by the number of Common Shares outstanding on each record date. Net income per Common Share presented is the sum of the monthly net income per the Common Share amounts for the reporting period.

(q) Financial Instruments

Our financial instruments consist of:

- Cash and cash equivalents,
- Accounts receivable,
- Accounts payable,
- Accrued wages, salaries and bonuses,
- Accrued operating expenses,
- Risk management contracts - foreign currency,
- Distributions payable,
- Other liabilities, non-controlling interest.

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 salaries, wages and bonuses, and accrued operating expenses 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.

(in thousands of U.S. dollars, unless otherwise indicated)

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.

NHC received $139,718 in net proceeds from the offering (including the Over-Allotment Option), after deducting fees payable by NHC to the Underwriters and the estimated expenses of the offering which totalled $13,858.

NHC 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, 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. Net proceeds received by NHC from the exercise of the Over-allotment Option were used to purchase an additional interest in the Palladium Partnership, resulting in Northstar Subco holding a 70% indirect interest in the Palladium Partnership.

Results from operations from these acquisitions have been included in the results 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 preliminarily allocated to the assets and liabilities of the Northstar Partnerships as follows:

Net assets acquired at fair value, based on preliminary allocation:	
Current assets less current liabilities	$ 14,087
Property and equipment	6,189
Other long-term assets	15
Other intangibles	7,636
Other liabilities – non-controlling interest	(17,964)
Non-controlling interests	(9,220)
	743
Goodwill	138,975
	$ 139,718

(in thousands of U.S. dollars, unless otherwise indicated)

The purchase price allocations are preliminary and are subject to changes once the final valuation of the assets acquired and liabilities assumed is completed.

The change in operating assets and liabilities on the consolidated statement of cash flows reflect the changes since the date of acquisition.

Cost		
Telephone equipment	$	26
Computer hardware		166
Computer software		68
Furniture and office equipment		170
Medical equipment		2,976
Leasehold improvements		2,842
Total cost		6,248
Accumulated depreciation		(151)
Net property and equipment	$	6,097

The depreciation expense charged to operations for the forty-five day period ended June 30, 2007, was $151.

Intangible Assets represent the fair value of the assets that we obtained when we acquired our interests in the Northstar Partnerships. Intangible assets primarily include the value of certain Physician Partner Contracts and are amortized over their estimated useful life of 19 years. Amortization for the period was $51.

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).

Healthcare Ventures ("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 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. (See Note 9).

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 full month dividend. Ventures' distribution from Northstar Subco shall be deferred by the amount of any shortfall. (See Note 8).

(in thousands of U.S. dollars, unless otherwise indicated)

Ventures has provided a $5.0 million revolving credit facility to the Company. The credit facility will bear interest at the 30 day LIBOR plus 300 basis points, payable monthly. In addition, the Company has accrued a one-time commitment fee equal to 0.5% of the full amount of the credit facility, and will pay a fee equal to .25% per annum on all amounts not drawn on the credit facility which remain undrawn. To date, no amounts have been drawn on the credit facility.

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

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 exposure arises from payment of dividends on its common shares.

As of June 30, 2007, the Company is committed to deliver $1.3 million monthly in exchange for C$1.4 million at stipulated exchange rates as follows:

Contract Dates	US$ to be delivered	Cdn$ to be received	Cdn$ per US$
July 2007 – June 2012	76,603	83,405	1.0888

Changes in the fair value during each reporting period are recorded as unrealized gains (losses) in the income statement. It is the Company's intention to maintain these contracts in place until their scheduled maturity dates.

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

On March 16, 2007 the Company was incorporated with an authorized share structure with 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 an IPO. On June 5, 2007, the over-allotment option was exercised resulting in the issuance of 1,813,154 additional common shares for net proceeds of $18,852.

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 Healthcare Subco, L.L.C. ("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 Northstar Healthcare Acquisitions, L.L.C Class B Units. Northstar Healthcare Acquisitions, L.L.C. ("Acquisitions") will purchase for cancellation all outstanding Acquisitions Class B Units for a nominal amount on the date that all outstanding Subco Class B Units have been purchased for cancellation by Subco.

(in thousands of U.S. dollars, unless otherwise indicated)

This liquidity right is treated as a liability of the Company and is recorded at fair value on the consolidated balance sheet. Any change in the fair value of the non-controlling interest liability is recognized in the consolidated statement of operations and deficit as a change in fair value, other liabilities, non-controlling interest liability.

Non-controlling interests at June 30, 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 ("PLP"). Non-controlling interests also includes the Acquisitions Class B Units held by Ventures. See Note 5. Non-controlling interests for the forty-five day period ended June 30, 2007 was $1,685 and $40, for the PLPs and Ventures, respectively.

(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.

Income before income taxes and non-controlling interests	$	3,637
U.S. federal income tax rate		35%
Expected U.S. federal income tax expense		1,273
Permanent differences:		
Intercompany note interest expense		(438)
Change in fair value of non-controlling interests		1,067
Unrealized gain on foreign currency		(821)
Non-controlling interest		(604)
Other		66
		(730)
Total income taxes	$	543

(in thousands of U.S. dollars, unless otherwise indicated)

If United States tax authorities were to implement changes to the tax laws or their interpretation, and these changes did not allow us to reduce our taxable income and our calculation of income tax expense by all or a portion of certain interest expense, we may be required to pay higher income taxes and our cash distributions could be adversely affected.

(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 Sheets.

Future income tax liabilities:		
Goodwill and intangibles	$	(410)
Net future income tax liability	$	(410)

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 $82 for the forty-five day period ended June 30, 2007.

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

2007 (remaining six months)	$	330
2008		674
2009		695
2010		712
2011		730
Thereafter		1,635
Total	$	4,776

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 for the forty-five day period ended June 30, 2007, was $7.

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