NORTHSTAR HEALTHCARE INC.

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

For the Three and Six Months Ended June 30, 2009

The following management discussion and analysis of the financial condition and results of operations of Northstar Healthcare Inc. (the "Company" or "NHC") for the three and six months ended June 30, 2009 is provided as of August 14, 2009. It is supplemental to, and should be read in conjunction with, the financial statements of the Company for the three and six months ended June 30, 2009. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Substantially all of the Company's operating cash flows are in U.S. dollars; accordingly, all amounts presented herein are stated in thousands of U.S. dollars, except per share data, unless otherwise indicated.

FORWARD LOOKING INFORMATION

This management's discussion and analysis 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 economic conditions, general business risks inherent in the ambulatory surgical center ("ASC") industry, including changing surgeon and patient preferences, numerous federal, state and local laws, competition from other healthcare providers, payor mix and our dependence on payment from third-party payors, including private insurers, managed care organizations and government healthcare programs. For a description of risks that could cause our actual results to materially differ from our current expectations, please see the section titled "Risk Factors" in NHC's Annual Information Form, filed with Canadian securities regulators on March 30, 2009. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Should one or more of these risks or uncertainties materialize or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking information. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

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

NON-GAAP FINANCIAL MEASURES

This management's discussion and analysis contains references to Adjusted EBITDA (earnings or loss before interest, taxes, depreciation and amortization, net of non-controlling interests and before unrealized gain or loss on foreign currency exchange contracts, goodwill impairment and change in fair value of other liabilities, non-controlling interest) and Adjusted EBITDA margin (Adjusted EBITDA, net of capital expenditures divided by net patient service revenue). Management believes that Adjusted EBITDA is a useful supplemental measure of cash available for dividends prior to debt service, capital expenditures, income taxes and other reserves. However, both Adjusted EBITDA and Adjusted EBITDA margin are not recognized measures under Canadian GAAP and do not have a standardized meaning prescribed by Canadian GAAP. Therefore, they may not be comparable to similar measures presented by other issuers. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income or loss (which are determined in accordance with Canadian GAAP) as an indicator of the performance of the Company or its subsidiaries or as a measure of liquidity and cash flows.

PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated on March 16, 2007 and completed its initial public offering and acquisition of its subsidiaries on May 17, 2007. At the time of the Company's initial public offering, it acquired controlling interests in two distinct business entities: The Palladium for Surgery – Houston, L.P. (the "Palladium Partnership") and Medical Ambulatory Surgical Suites, L.P. (the "Kirby Partnership" and together with the Palladium Partnership, the "Northstar Partnerships").

We have included a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Palladium Partnership and the Kirby Partnership for the three and six months ended June 30, 2009 compared with the prior year period. Cases performed are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as net patient service revenues vary by patient, insurance carrier and procedure.

CORPORATE OVERVIEW

NHC was incorporated under the *Business Corporations Act* (British Columbia) on March 16, 2007. NHC is a corporation formed to indirectly acquire and/or manage ambulatory surgery 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.

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 87 surgeons that performed procedures in 2009.

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2009 AND FOR THE THREE MONTHS ENDED JUNE 30, 2008

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

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net patient service revenue	**$ 6,612**	**$ 10,926**
Operating expenses		
Salaries and benefits	1,743	1,658
Drugs and supplies	812	939
General and administrative	3,613	1,905
Bad debt expense	2	-
Depreciation and amortization	374	447
	6,544	4,949
Income from operations	**68**	**5,977**
Other expense (income)		
Distribution, other liabilities, non-controlling interest	87	435
Withholding tax	-	345
Change in fair value of other liabilities, non-controlling interest	-	500
(Gain) on foreign currency	(2,642)	(1,600)
State franchise tax	(54)	69
Other (income)	(4)	(18)
	(2,613)	(269)
Income before income taxes and non-controlling interest	**2,681**	**6,246**
Income tax expense (recovery)		
Current	(125)	(171)
Future	-	1,291
	(125)	1,120
Non-controlling interests	1,062	2,236
Net income and comprehensive income	**$ 1,744**	**$ 2,890**
Net income per common share		
Basic	**$ 0.13**	**$ 0.21**
Diluted	**$ 0.12**	**$ 0.21**
Weighted average number of shares and share equivalents outstanding		
Basic	**13,900,852**	**13,900,852**
Diluted	**14,426,283**	**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 es

Net patient service revenues for the three months ended June 30, 2009 totalled $6.6 million, a decrease of $4.3 million or 39.5%, compared to $10.9 million for the same period in 2008. The decline was primarily due to a 30.0% decrease in case volume accompanied by a 14.3% decrease in the overall reimbursement rate for the three months ended June 30, 2009 versus the same period in 2008. The decrease in the reimbursement rate is directly associated with the volume decrease in cases with higher reimbursement rates at the Palladium Partnership during the current collection difficulty with one of its major payors. In addition, the signing of an in-network contract at the Kirby Partnership on January 1, 2009 also contributed to the decline of the overall reimbursement rate. In June 2009, after comparing historical payment data to the estimated net patient service revenues primarily reported in 2008, management determined that actual collections as of June 30, 2009 had exceeded 2008 reported revenues (actual collections exceed net patient services revenues recorded). As a result, the Company recorded a $1.5 million increase to net patient service revenues during the three months ended June 30, 2009.

Salaries and benefits for the three months ended June 30, 2009 totalled $1.7 million, which exceeded the salaries and benefits for the three months ended June 30, 2008 by $0.1 million or 5.1%. The increase was partially attributable to a $0.3 million severance expense relating to the departure of the Company's Chief Operating Officer in May 2009 and was offset by $0.2 million decrease at the Palladium Partnership.

Drugs and medical supplies for the three months ended June 30, 2009 were $0.8 million, a decrease of $0.1 million or 13.6% compared to $0.9 million for the three months ended June 30, 2008. The decrease was due to the overall decrease in case volumes.

General and administrative expense for the three months ended June 30, 2009 totalled $3.6 million, which exceeded the general and administrative expense for the three months ended June 30, 2008 by $1.7 million, or 88.9%. A decrease of $0.1 million at the Northstar ASCs was offset by the increase in legal, consulting expenses and directors' and officers' compensation as a result of the Company's strategic review and the claim against Dr. Kramer.

For the three months ended June 30, 2009, distributions, other liabilities, and non-controlling interest totalled $0.1 million; gain on foreign currency exchange contracts totalled $2.6 million; and non-controlling interests amounted to $1.0 million, a decrease of $1.2 million from the same period in 2008, based on percentage of minority interests owned by the physician limited partners and Healthcare Ventures Ltd. ("Ventures").

There was no change for the three months ended June 30, 2009 in the fair value of other liabilities, non-controlling interest, which represented the change in fair value of the Class B Units of Northstar Healthcare Subco, L.L.C. ("Northstar Subco") held by Ventures, compared to $0.5 million for the three months ended June 30, 2008. Any change in fair value is recorded as an income or expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures, which entitles it to request at any time after May 17, 2009 that Northstar Subco enter into good faith negotiations to purchase for cancellation all or any portion of the Class B Units of Northstar

RESULTS OF OPERATIONS AS PERCENTAGE OF NET PATIENT SERVICE REVENUES FOR THE THREE MONTHS ENDED JUNE 30, 2009 AND FOR THE THREE MONTHS ENDED JUNE 30, 2008

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net patient service revenue	**100.0%**	**100.0%**
Operating expenses		
Salaries and benefits	26.4%	15.2%
Drugs and supplies	12.3%	8.6%
General and administrative	54.6%	17.4%
Bad debt expense	0.0%	0.0%
Depreciation and amortization	5.7%	4.1%
	99.0%	45.3%
Income from operations	**1.0%**	**54.7%**
Other expense (income)		
Distribution, other liabilities, non-controlling interest	1.3%	4.0%
Withholding tax	0.0%	3.2%
Change in fair value of other liabilities, non-controlling interest	0.0%	4.6%
(Gain) on foreign currency	-40.0%	-14.6%
State franchise tax	-0.8%	0.6%
Other income	-0.1%	-0.2%
	-39.6%	-2.4%
Income before income taxes and non-controlling interest	**40.6%**	**57.1%**
Income tax expense (recovery)		
Current	-1.9%	-1.6%
Future	0.0%	11.8%
	-1.9%	10.2%
Non-controlling interests	16.1%	20.5%
Net income and comprehensive income	**26.4%**	**26.4%**

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

Payors	Q2 2009 Net Patient Service Revenue by Payor Mix	Q2 2008 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay	87.3%	91.6%
Workers compensation	7.7%	4.8%
Medicare/Medicaid	3.2%	1.3%
Other	1.8%	2.3%
Total	**100.0%**	**100.0%**

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

Net patient service revenues from private insurance and private pay payors are generally higher when a facility does not have an in-network contract with the payor. As of June 30, 2009, Northstar ASCs had one in-network contract at the Kirby Partnership with one of its key private insurance payors. This in-network contract, along with the case volume decrease at the Palladium Partnership, consequently decreased the payor mix of private insurance and other private pay groups to 87.3% for the three months ended June 30, 2009 from 91.6% for the same period in the prior year.

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

Specialty	Q2 2009 Cases	Q2 2009 Percentage of Cases	Q2 2009 Procedures	Q2 2009 Percentage of Procedures	Q2 2008 Cases	Q2 2008 Percentage of Cases	Q2 2008 Procedures	Q2 2008 Percentage of Procedures
Pain Management…………	852	48.6%	4,184	63.6%	1,302	52.0%	7,482	68.4%
Orthopaedics………………	496	28.3%	1,234	18.8%	580	23.2%	1,447	13.2%
Podiatry……………………	73	4.2%	276	4.2%	159	6.3%	623	5.7%
Gastro-intestinal…………..	125	7.1%	199	3.0%	182	7.3%	276	2.5%
General Surgery……………	93	5.3%	215	3.3%	121	4.8%	263	2.4%
ENT……………………….	115	6.5%	470	7.1%	160	6.4%	851	7.8%
Total……………………….	**1,754**	**100.0%**	**6,578**	**100.0%**	**2,504**	**100.0%**	**10,942**	**100.0%**

The Company has provided a number of comparative operating statistics, such as cases and procedures performed at the Northstar ASCs for the three month period ended June 30, 2009 compared with the same period in the prior year. This information is not intended to provide a comprehensive comparison of financial results, as gross billings and net patient service revenues vary by patient, insurance carrier and procedure.

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

Total cases for the three months ended June 30, 2009 were 1,754, a decrease of 750 cases or 30.0% from the 2,504 cases in the same period in 2008. Decreased case volumes were experienced in all of the specialties with pain management specialty representing 60% of the overall decrease. The Palladium Partnership attributed most of the decline in case volume to its current negotiations with one of its major payors.

Procedure volume for the three months ended June 30, 2009 decreased by 39.9% from 10,942 to 6,578. 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 JUNE 30, 2009 AND THE THREE MONTHS ENDED JUNE 30, 2008

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

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net patient service revenue…………………………………….	$ 6,612	$ 10,926
Net income and comprehensive income……………………….	$ 1,744	$ 2,890
Add:		
Depreciation and amortization…………………………………	374	447
Change in fair value of other liabilities, non-controlling interest………………………………………………………	-	500
Unrealized (gain) on foreign currency exchange contracts……..	(2,494)	(1,600)
Income tax (current & future)………………….……………	(125)	1,120
Adjusted EBITDA ………………………………………..	**(501)**	**3,357**
Less:		
Capital expenditures…………………………………………	(10)	(161)
Adjusted EBITDA net of capital expenditures……………..	**$ (511)**	**$ 3,196**
Adjusted EBITDA margin net of capital expenditures……	-7.7%	29.3%

Adjusted EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the three months ended June 30, 2009 was negative $0.5 million, a decrease of $3.9million from $3.4 million for the same period in the prior year. The decrease was attributable to a $1.1 million, $1.2 million, and $0.5 million decreases in net income, income tax, and change in fair value of other liabilities and non-controlling interest, respectively. In addition, unrealized gain on foreign currency exchange contracts increased by $0.9 million between the periods.

The Company, as a result, recorded a $1.5 million increase to net patient service revenues for the six months ended June 30, 2009.

Salaries and benefits for the six months ended June 30, 2009 totalled $3.6 million, which exceeded the salaries and benefits for the six months ended June 30, 2008 by $0.4 million or 11.1%. The increase included a $0.3 million in severance expense relating to the departure of the Company's Chief Operating Officer in May 2009. It was also attributable to the additional salaries and benefits for employees of Northstar Acquisitions, the Company's operating subsidiary, as the management team was not fully established during the first six months of 2008. Salaries and benefits expense for Northstar Acquisitions was $1.1 million and $0.6 million for the six months ended June 30, 2009 and 2008, respectively.

Drugs and medical supplies for the six months ended June 30, 2009 totalled $1.6 million, a decrease of $0.2 million compared to $1.8 from the six months ended June 30, 2008. A decrease in cases with high supply costs, such as orthopaedics, general surgery and ear, nose, and throat (ENT) contributed to the overall decrease in drugs and medical supplies.

General and administrative expense for the six months ended June 30, 2009 totalled $5.8 million, which exceeded the general and administrative expense for the six months ended June 30, 2008 by $2.1 million, or 57.6%. The increase was attributable to the additional expenses in legal and consulting expenses and directors' and officers' compensation as a result of the Company's strategic review and the claim against Dr. Kramer.

For the six months ended June 30, 2009, distributions, other liabilities, and non-controlling interest totalled $0.1 million; gain on foreign currency exchange contracts totalled $1.2 million; and non-controlling interests amounted to $1.5 million based on percentage of minority interests owned by the physician limited partners and Ventures.

There was no change for the six months ended June 30, 2009 in the fair value of other liabilities, non-controlling interest which represented the change in fair value of the Class B Units of Northstar Subco held by Ventures. Any change is recorded as an income or expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures, which entitles it to request at any time after May 17, 2009 that Northstar Subco enter into good faith negotiations to purchase for cancellation all or any portion of the Class B Units of Northstar Subco held by Ventures. The price paid for such Northstar Subco Class B Units will be equal to their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Acquisitions. Northstar Acquisitions will purchase for cancellation all outstanding Class B Units of Northstar Acquisitions for a nominal amount on the date that all outstanding Class B Units of Northstar Subco have been purchased for cancellation from Ventures by Northstar Subco.

The $1.2 million gain in foreign currency exchange contracts related to the change during the period in the fair value of the forty-eight month foreign currency exchange contracts entered into by the Company at the time of the Company's initial public offering to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar relating to the Common Share dividends. This gain was a result of the increase in value of the Canadian dollar during the period. The gain increased by $2.5 million for the six months ended June 30, 2009 from the same period in the prior year.

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

RESULTS OF OPERATIONS AS PERCENTAGE OF NET PATIENT SERVICE REVENUES FOR THE SIX MONTHS ENDED JUNE, 30, 2009 AND THE SIX MONTHS ENDED JUNE 30, 2008

(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net patient service revenue………………………………………	**100.0%**	**100.0%**
Operating expenses		
Salaries and benefits…………………….………………………	29.2%	14.6%
Drugs and supplies…………………….…………………………	13.6%	8.3%
General and administrative……………………….…………..	48.1%	17.0%
Bad debt expense………..……………………….…………..	4.5%	0.0%
Depreciation and amortization…………………………………	6.7%	4.1%
	102.1%	43.9%
Income (loss) from operations………………………………………	**-2.1%**	**56.1%**
Other expense (income)		
Distribution, other liabilities, non-controlling interest…………	1.2%	3.9%
Withholding tax…………………………………………………	0.0%	3.2%
Change in fair value of other liabilities, non-controlling interest……………………………………………………..	0.0%	-3.7%
(Gain) / loss on foreign currency………………………………	-10.2%	5.7%
State franchise tax………………………………………………	-0.1%	0.7%
Other expense (income)………………………………………	-0.1%	-0.2%
	-9.1%	9.6%
Income before income taxes and non-controlling interest………..	**7.1%**	**46.5%**
Income tax expense (recovery)		
Current…………………………………………………………	-5.6%	-1.5%
Future……………………………………………………………	0.0%	4.5%
	-5.6%	3.0%
Non-controlling interests……………………………………………	12.6%	20.7%
Net income (loss) and comprehensive income (loss)………………	**0.1%**	**22.8%**

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

Payors	2009 Net Patient Service Revenue by Payor Mix	2008 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay……….	87.5%	91.4%
Workers compensation………………………	7.4%	5.0%
Medicare/Medicaid…………………………	2.6%	1.4%
Other…………………………………………	2.5%	2.2%
Total…………………………………………	**100.0%**	**100.0%**

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

Net patient service revenues from private insurance and private pay payors are generally higher when a facility does not have an in-network contract with the payor. As of June 30, 2009, Northstar ASCs had one in-network contract at the Kirby Partnership with one of its key private insurance payors. This in-network contract along with the case volume decrease at the Palladium Partnership, due to the current negotiation, consequently decreased the payor mix of private insurance and other private pay groups to 87.3% for the six months ended June 30, 2009 from 91.6% for the same period in the prior year.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND THE SIX MONTHS ENDED JUNE 30, 2008

Specialty	2009 Cases YTD	2009 Percentage of Cases YTD	2009 Procedures YTD	2009 Percentage of Procedures YTD	2008 Cases YTD	2008 Percentage of Cases YTD	2008 Procedures YTD	2008 Percentage of Procedures YTD
Pain Management…………	1,627	46.6%	8,244	61.4%	2,586	53.9%	15,254	69.7%
Orthopaedics………………	986	28.2%	2,545	19.0%	1,096	22.9%	2,802	12.8%
Podiatry……………………	172	4.9%	808	6.0%	280	5.8%	1,119	5.1%
Gastro-intestinal…………..	263	7.5%	403	3.0%	312	6.5%	476	2.2%
General Surgery……………	210	6.0%	446	3.3%	200	4.2%	474	2.2%
ENT……………………….	239	6.8%	976	7.3%	321	6.7%	1,755	8.0%
Total……………………….	**3,497**	**100.0%**	**13,422**	**100.0%**	**4,795**	**100.0%**	**21,880**	**100.0%**

The Company has provided a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Palladium Partnership and the Kirby Partnership for the six month period ended June 30, 2009 compared with the same period in the prior year. This information is not intended to provide a comprehensive comparison of financial results, as gross billings and net patient service revenues vary by patient, insurance carrier and procedure.

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

Case volume for the six months ended June 30, 2009 was 3,497, a decrease of 1,298 cases, or 27.1%, from the 4,795 total cases in the same prior year period. Case increases in general surgery were offset by decreases in pain management, podiatry, orthopaedics, gastro-intestinal and ear, nose and throat (ENT) specialties. The Palladium Partnership attributed most of the decline in case volume due to its current negotiations with one of its major payors.

Procedure volume for the six months ended June 30, 2009 decreased by 38.7% from 21,880 to 13,422 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 SIX MONTHS ENDED JUNE 30, 2009 AND THE SIX MONTHS ENDED JUNE 30, 2008
(in 000's of US $, except per share data)
(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net patient service revenue………………………………..	$ 12,156	$ 21,879
Net income and comprehensive income……………………..	$ 16	$ 4,992
Add:		
Depreciation and amortization…………………………...…..	811	886
Change in fair value of other liabilities, non-controlling interest…………………………………………………………	-	(800)
Unrealized (Gain)/ loss on foreign currency exchange contracts……………………………………………….………	(791)	1,245
Goodwill and intangible asset impairment…...………………..	-	-
Income tax (current & future)…………………...……………	(686)	654
Adjusted EBITDA …………………………………….....…	**(650)**	**6,977**
Less:		
Capital expenditures……………………………………………	(39)	(241)
Adjusted EBITDA net of capital expenditures…….………	**$ (689)**	**$ 6,736**
Adjusted EBITDA margin net of capital expenditures……..	-5.7%	30.8%

Adjusted EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the six months ended June 30, 2009 was negative $0.7 million, a decrease of $7.6 million from $7.0 million for the same period in the prior year. The decrease was attributable to a $5.0 million decrease in net income and $1.3 million decrease in income tax. In addition, change in fair value of other liabilities and non-controlling interest increased by $0.8 million and unrealized gain on foreign currency exchanged contracts increased by $2.0 million between the periods.

SUMMARY OF QUARTERLY RESULTS

	2nd Q 2009	1st Q 2009	4th Q 2008	3rd Q 2008	2nd Q 2008	1st Q 2008	4th Q 2007	3rd Q 2007
Net patient service revenues…………….	$ 6,612	$ 5,544	$ 11,536	$ 9,364	$ 10,926	$ 10,953	$ 13,593	$ 12,508
Net income (loss) and comprehensive income (loss)…………………………….	$ 1,744	$ (1,728)	$ (75,827)	$ (33,371)	$ 2,890	$ 2,102	$ 1,470	$ 322
Net income (loss) per basic share……….	$ 0.13	$ (0.12)	$ (5.45)	$ (2.39)	$ 0.21	$ 0.15	$ 0.11	$ 0.02
Net income (loss) per diluted share…….	$ 0.12	$ (0.12)	$ (5.45)	$ (2.39)	$ 0.21	$ 0.15	$ 0.11	$ 0.02

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

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

For the three and six months ended June 30, 2009 the Company's cash flow from operations was $1.6 and $4.5 million, respectively. These represented a 76.5% and 65.4% decrease from the cash flow from operations for the three ($6.6 million) and the six months ($13.1 million) ended June 30, 2008, respectively. On January 12, 2009, the Board of Directors suspended the payments of dividends on the Company's common shares, effective after payment of the January 15, 2009 dividend. As a result, distributions to non-controlling interest were $1.2 million for the three months ended June 30, 2009. Dividends paid, realized loss on the foreign translation of the forward currency contracts, and distributions to non-controlling interests totalled $3.5 million for the six months ended June 30, 2009. Capital expenditures were minimal for the three and six months ended June 30, 2009, respectively. The Company, as of June 30, 2009, did not have identified capital expenditure needs for the remainder of 2009.

As at June 30, 2009, the Company had consolidated net working capital of $7.7 million. Cash balances were $4.7 and total accounts receivable were $4.2. Accounts payable and accrued liabilities totalled $3.3 million and total long term liabilities were $7.5 million. Management expects to generate sufficient amounts of cash to maintain its capacity and meet its current working capital requirements. However, as a result of certain claims made by the Company and its subsidiaries (discussed below under "Outlook"), there is a significant amount of uncertainty regarding the Company's liquidity needs in 2009 and beyond. The Company may be required to expend significant amounts and devote considerable management time to the pursuit of these claims. It is not possible to accurately predict the amount of expenses that will be incurred or the resolution of these matters. If the actual cost of the process exceeds management's estimates, the Company may not have sufficient cash to fund its working capital requirements during the next twelve months.

Ventures has provided a $5.0 million revolving credit facility to the Company. The credit facility bears interest at the 30 day LIBOR plus 300 basis points, payable monthly. In addition, the Company paid a one-time commitment fee equal to 0.5% of the full amount of the credit facility, and will pay a fee equal to 0.25% per annum on all amounts not drawn on the credit facility. To date, no amounts have been drawn on the credit facility. As a result of the claims by Northstar against Dr. Donald Kramer (discussed below under "Outlook"), there can be no assurance that the Company will be able to draw down any amounts under the credit facility

CONTRACTUAL OBLIGATIONS

The Company leases property and certain equipment under non-cancellable operating lease arrangements which expire at various dates through 2014. Certain leases of real property provide options to extend the lease terms.

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

Year	**Amount**
2009 (remaining six months)	416
2010	843
2011	859
2012	856
2013	733
Thereafter	98
Total	$ 3,805

FINANCIAL INSTRUMENTS

Foreign Exchange Contracts

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

After suspending its dividend payment starting January 15, 2009, the Company, as of June 30, 2009 continues to be obligated to deliver approximately $0.8 million monthly in exchange for approximately C$0.9 million for the contract period of July 2009 to June 2012; and $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	Cdn$ to be Received	Cdn$ per US$
July 2009 – June 2012	28,435	30,960	1.0888
July 2012 – December 2012	5,244	5,160	0.9840
January 2013 – June 2013	5,158	5,160	1.0003

The fair value of the Company's foreign currency contracts was a $3.0 million unrealized loss at June 30, 2009 and a $4.8 million unrealized loss at December 31, 2008. Changes in the fair value during each reporting period are recorded as loss or gain on foreign currency. The gain for the change in fair value was $2.8 million and $1.7 million for the three and six months ended June 30, 2009, respectively. The change in fair value was a gain of $1.3 million and a loss of $1.9 million for the three and six months ended June 30, 2008, respectively.

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

At the date of record, the Company records a liability based on the amount of U.S. funds required to pay the declared distribution or meeting its monthly currency exchange contract obligation using the Canadian to U.S. dollar foreign exchange spot rate then in effect. When the dividend is paid or the contract is exercised, the difference between the Canadian to U.S. dollar foreign exchange spot rate and the exchange rate under the Company's currency instruments is recognized in loss or gain on foreign currency. The loss recognized was $0.1 million and $0.4 million for the three and six months ended June 30, 2009, respectively. The gain recognized was $0.3 million and $0.7 million for the three and six months ended June 30, 2008, respectively.

Forbearance Agreement

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

RELATED PARTY TRANSACTIONS

Physicians who represent the non-controlling interests in the Northstar Partnerships routinely provide independent professional services directly to patients utilizing the Northstar ASCs. In addition, Donald Kramer, M.D., NHC's co-founder and former CEO and director, owns approximately 18.0% of the Palladium Partnership.

Management understands that Donald Kramer, M.D. is the sole limited partner of Ventures. Ventures holds all of the Northstar Acquisitions Class B Units. Each Northstar Acquisitions Class B Unit entitles Ventures to receive monthly distributions of cash from Northstar Acquisitions equal to a specified percentage of Northstar Acquisitions' gross management fee revenues (including management fees earned for services earned under the Management and Cost Sharing Agreement between Northstar Acquisitions and the Northstar Partnerships and for services provided to other clients of Northstar Acquisitions), payable after all distributions have been made to the holders of Northstar Acquisitions Preferred Units and Northstar Acquisitions Class A Units. The specified percentage is currently equal to 12.5% and will decrease if Ventures disposes of Northstar Acquisitions Class B Units pursuant to its negotiation right.

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

Ventures has provided a $5.0 million revolving credit facility to the Company. The credit facility bears interest at the 30 day LIBOR plus 300 basis points, payable monthly. In addition, the Company paid a one-time commitment fee equal to 0.5% of the full amount of the credit facility, and will pay a fee equal to 0.25% per annum on all amounts not drawn on the credit facility. To date, no amounts have been drawn on the credit facility.

Ventures 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.

Included in accrued liabilities as of June 30, 2009 is $1.8 million related to deferred Northstar Subco monthly distributions to Ventures, compared to $1.7 million as of December 31, 2008. The operating agreement of Northstar Subco provides that until the earlier of December 31, 2010 or an announced increase in monthly dividends by the Company, if the Company's cash available to pay dividends for any month is less than 110% of the initial full monthly dividend, Ventures' distributions from Northstar Subco shall be deferred by the shortfall. The Company's cash available to pay dividends for June, August, November, December 2007 and January, February, March and May 2008 to June 2009 was less than 110% of the initial full monthly dividend; accordingly, the payment of $1.8 million of the distributions due to Ventures on account of its Northstar Subco Class B Units for those months has been deferred until twelve months following the month of deferral, provided that at such time the Company's 12-month trailing cash available for dividends exceeds 110% of the initial full monthly dividend.

The Company, through Northstar Acquisitions, provides management services to the Palladium for Surgery - Dallas and 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 two pain management clinics located in Houston and Baytown, Texas. Donald Kramer, M.D., the former CEO and director of the Company owns 95% of The Palladium for Surgery – Dallas and a 100% interest in River Oaks Pain Management. The Managed Centers are managed by the Company pursuant to separate management agreements. The management agreements with the Managed Centers provide for a management fee of 10% of net collected revenues. On July 8, 2009, River Oaks Pain Management notified Northstar Acquisitions that it had ceased operations at its Houston and Baytown pain management clinics.

Revenue from management fees represents fees charged to the Managed Centers and is based on a percent of collections, for managing the centres' business operations. The revenue from these fees was $0.1 million and $0.2 million for the three and six months ended June 30, 2009 and 2008, respectively.

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

ADOPTING OF NEW ACCOUNTING STANDARDS AND DEVELOPMENTS

Recent Accounting Pronouncements

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

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

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

In 2008, Canada’s Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards (“IFRS”) over a transitional period currently expected to be about five years. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

During the planning stage, the Company identified a knowledge gap internally for a comprehensive impact assessment and a timely IFRS conversion. The Company engaged an external consulting firm in April 2009 to provide a system review and implementation protocol. Management completed the review and prepared a changeover plan that includes an established project structure and governance practices, detailed timetable for fiscal 2009 and 2010, identification and allocation of resources, development and execution of a training program, detailed analysis of all Canadian GAAP to IFRS differences, detailed analysis and selection of all IFRS 1 elections, and

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

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

After suspending its monthly dividends to the common shares commencing January 16, 2009, the Company continues to be obligated to deliver approximately $0.8 million monthly for all of its open forward currency exchange contracts previously entered into between the Canadian dollar and the U.S. dollar. The remaining 48 contracts as of June 30, 2009 include 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.

The effect of a 10.0% strengthening of the Canadian dollar against the U.S. dollar, as of June 30, 2009, on the forward currency swaps carried at that date would have resulted in an increase in pre-tax profit for the year and increase in net assets of $3.7 million. A 10.0% weakening in the exchange rate would, on the same basis, have decreased pre-tax profit and decreased net assets by $3.2 million. As of June 30, 2009, break-even point for the remaining of 48 contracts would have been at an approximate rate of US$1 = C$1.0625. This rate would not be the same from quarter to quarter as it is a factor of both the spot exchange rate as well as the forward curve for the U.S. and Canadian dollars. The Company is also exposed to currency risk on purchases made from vendors based in Canada. As of June 30, 2009, the Company had trade payables of $0.7 million denominated in Canadian Dollars.

At June 30, 2009, NHC had an unrealized foreign exchange loss of $3.0 million on the open forward currency exchange contracts based on the open spot rate as of June 30, 2009.

RISK FACTORS

Please refer to the risk factors, in addition to the ones discussed herein, set out in the Company's Annual Information Form, dated March 31, 2009, for a list of the significant risk factors to which the Company is exposed.

OUTSTANDING SHARE DATA

At August 14, 2009, the Company had 13,900,852 Common Shares outstanding and had granted 1,296,648 units under the Restricted Share Unit Plan and Deferred Share Unit Plan.

OUTLOOK

Proposed Changes to United States Healthcare System

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

Both the House and Senate bills call for sweeping insurance market reforms that: 1) bar insurance companies from refusing to cover people or charging them more because of health history or gender; 2) cap out-of-pocket expenses; 3) place a limit on insurance premiums; and 4) increase competition with private insurance companies either through a new government plan or creating non-profit medical co

Management Contracts

On July 10, 2009, Palladium for Surgery – Dallas delivered notice to Northstar Acquisitions alleging certain breaches of the management agreement between the two entities. Northstar Acquisitions disputes these allegations. Under the terms of the Palladium – Dallas management agreement, Palladium – Dallas has the right to terminate the contract in the event of a material breach by Northstar Acquisitions of its obligations thereunder which continues for a period of 60 days after notice; provided that if such default is of a nature that it cannot be cured within 60 days, then the agreement shall not terminate provided Northstar Acquisitions shall make and continue to make a bona fide effort to cure any such default. Dr. Kramer owns a 100% interest in River Oaks Pain Management and a 95% interest in Palladium for Surgery – Dallas. The revenue from the management fees charged to the Managed Centers for the three and six months ended June 30, 2009 was $0.1 million and $0.2 million, respectively.

Strategic Review Process

As announced on February 9, 2009, Northstar's Board of Directors initiated a process to identify and evaluate strategic alternatives available to maximize shareholder value and has appointed a committee of independent directors to oversee the process. This process continues while the Company focuses on addressing the operational challenges discussed above**.**

Management is focussing its efforts to resolve the major operations challenges, discussed above and their resulting uncertainty:

- Claims Under Partnership Interest Purchase Agreement with Dr. Kramer and the three former members of management
- Collections dispute and potential in network contract with major insurer at Palladium Houston
- Re-syndication of Palladium Houston
- Resolution of accounts receivable collections claims with the Kirby Physician partners

Given the challenging business environment and conditions, the independent committee expects the evaluation of alternatives will take time to conclude and further notes that there can be no assurance that the strategic review process will result in any transaction. To date, there have been no significant transactions. In connection with the strategic review process, the Toronto Stock Exchange has granted Northstar an extension from the requirement to hold its annual general meeting prior to June 30, 2009. The Board of Directors has set September 3, 2009 as the date of its annual meeting.

In March 2009, Northstar selected an independent third party valuator to conduct a formal valuation in connection with the announcement by Dr. Donald Kramer, Northstar's former chief executive officer, in February, 2009 that he intended to lead a group of physicians, through an acquisition company, to make an offer to acquire all the issued and outstanding common shares of Northstar for Cdn$0.95 per common share in cash. The valuation process requested by Dr. Kramer has not yet been initiated as Dr. Kramer has not yet advanced a retainer to cover the expenses for the valuator, which expenses are required to be paid by Dr. Kramer under applicable securities laws.

ADDITIONAL INFORMATION

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

August 14, 2009