NORTHSTAR HEALTHCARE

NORTHSTAR HEALTHCARE INC.

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

For the Three Months Ended March 31, 2010

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 months ended March 31, 2010 is provided as of May 14, 2010. It is supplemental to, and should be read in conjunction with, the financial statements of the Company for the three months ended March 31, 2010. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Substantially all of the Company's operating cash flows are in U.S. dollars; accordingly, all amounts presented herein are stated in thousands of U.S. dollars, except per share data, unless otherwise indicated.

FORWARD LOOKING INFORMATION

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

By its very nature, forward-looking information involves significant known and unknown risks, uncertainties and assumptions. Important assumptions relating to the forward-looking information contained in this management's discussion and analysis include, but are not limited to, expansion, capital expenditures, currency risks, natural disasters, competitive conditions and general 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 our Annual Information Form, filed with Canadian securities regulators. 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.

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, Ltd. (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 months ended March 31, 2010 compared with the prior year period. Cases performed are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as net patient service revenues vary by patient, insurance carrier and procedure.

CORPORATE OVERVIEW

NHC was incorporated under the *Business Corporations Act* (British Columbia) on March 16, 2007. NHC is a corporation formed to indirectly acquire and/or manage ambulatory surgery centers in the United States, focusing initially on Houston and other metropolitan areas in Texas. NHC used the net proceeds of an initial public offering to indirectly acquire a 70% partnership interest in the Palladium Partnership and a 60% partnership interest in the Kirby Partnership, which operate two ambulatory surgery centres (the "Northstar ASCs") located in Houston. In addition, until December 31, 2009, NHC managed an ambulatory surgery center in Dallas.

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

Together, the Northstar ASCs have seven operating suites, three procedure or treatment rooms typically used by pain management specialists or for colonoscopies, 12 pre-operation beds, 17 post-operation or recovery beds and 90 surgeons that performed procedures in 2009.

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

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	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Income tax expense (recovery)		
Current…………………………………………………………………..	-	(560)
Future………………………………………………………………….	-	-
	-	(560)
Non-controlling interests………………………………………………...	124	464
Net loss and comprehensive loss…………………………………………...	**$ (1,352)**	**$ (1,728)**
Net loss per common share		
Basic………………………………………………………………………...	**$ (0.10)**	**$ (0.12)**
Diluted………………………………………………...…………………….	**$ (0.10)**	**$ (0.12)**
Weighted average number of shares and share equivalents outstanding		
Basic………………………………………………………………………...	**13,900,852**	**13,900,852**
Diluted…………………………………………………...…………………..	**13,900,852**	**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 based on final settlements and collections.

Net patient service revenues for the three months ended March 31, 2010 totalled $3.1 million, a decrease of $2.4 million or 44.1%, compared to $5.5 million for the same period in 2009. Included in the $3.1 million is $0.6 million related to collections during the first quarter of 2010 that were not recognized as revenues in prior periods. The net decline in revenues was primarily due to a 39.8% decrease in case volume accompanied by a 23.9% decrease in the overall reimbursement rate for the three months ended March 31, 2010 versus the same period in 2009. The overall case volume decline was attributable to a 12.2% decrease at the Kirby Partnership and a 72.9% decrease at the Palladium Partnership. The decrease at the Palladium Partnership was due primarily to a lack of procedures by non-partner physicians.

As noted in the Company's annual information form dated March 15, 2010, a majority of the Palladium Partnership's historical revenues have been generated by billings relating to exclusive use agreements. These exclusive use agreements involve the contracting out of excess operating room capacity as well as a leasing of the ASC license to non-partner physicians. This model has experienced difficulties due to the refusal by virtually all major third party payors to reimburse such procedures, partly based on an objection to the out-of-network fees and partly based on the allegation that this model is impermissible under applicable law. In addition, this model has caused collection difficulties with non-partner surgeons on cases performed under the exclusive use agreements, and could cause similar situations to arise with other third party payors in the future. Consequently, the Palladium Partnership may not be able to collect existing receivables from payors billed under the exclusive use agreements, future claims for such charges may not be paid and past claims may be subject to recovery. In situations where insurers recover prior payments from non-partner physicians for historical cases billed pursuant to exclusive use agreements, such physicians might bring claims against the Palladium Partnership.

General economic downturn in the Houston metro area and the discontinued promotion of exclusive use cases negatively impacted case volume at the Kirby Partnership. Furthermore, the decrease in the reimbursement rate is directly associated with volume decreases in specialties with higher reimbursement rates at both ASCs.

During the three months ended March 31, 2010, after comparing historical payment data to the estimated net patient service revenues reported in 2009, management determined that actual collections as of March 31, 2010 had exceeded the reported net patient service revenues in the amount of $0.5 million. In addition, $0.1 million was related to net patient service revenues previously not recognized. As a result, the Company recorded a $0.6 million increase to net patient service revenues and accounts receivable for the three months ended March 31, 2010. There can be no assurance that any additional recovery will occur in the future as a result of the Company's ongoing collection effort. An analysis of the revenues recorded for the three months ended March 31, 2010 is as follows:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
From procedures performed during the period…………………………………………..	$ 2,523	$ 5,544
From receipts that exceeded prior period revenues……………………………………..	417	0
From revenues previously not recognized………………………………………………	160	0
Amount recorded during the period……………………………………………………….	**$ 3,100**	**$ 5,544**

Salaries and benefits for the three months ended March 31, 2010 totalled $1.3 million, which was $0.5 million or 28.8% lower than the salaries and benefits for the three months ended March 31, 2009. The decrease was mainly

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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. Under the agreement Northstar Acquisitions has the right to 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.

Management uses different valuation methods to estimate the fair value of other liabilities, non-controlling interest based on various business conditions. For the three months ended March 31, 2010, fair value of the Northstar Subco units held by Ventures was calculated using the market capitalization approach, which calculates the fair value based on the number of shares outstanding and Cdn to US$ currency exchange rate as of March 31, 2010. The market capitalization approach is a change in the valuation technique used during the periods prior to the fourth quarter of 2009, as a result of deferrals, significantly reduced cash flows and claims made against Dr. Kramer. These factors make the discounted cash flow method impracticable to use in calculating the fair value as of March 31, 2010. Should the Company enter into good faith negotiations with Ventures to purchase for cancellation all or any portion of the Northstar Subco and Northstar Acquisitions Class B Units, the price paid for the Class B Units could be different from the $1.4 million fair value pursuant to Canadian GAAP.

In January 2010, Ventures requested in writing that Northstar Subco negotiate in good faith and use its best efforts to purchase Ventures' 12,500 Class B Units in Northstar Subco. Northstar Subco responded to this request in January 2010, noting that under the terms of the Northstar Subco operating agreement, Ventures is not permitted to exercise its negotiation right as a result of Northstar Holdco being in default of certain of its obligations under the Repurchase Agreement.

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

RESULTS OF OPERATIONS AS PERCENTAGE OF NET PATIENT SERVICE REVENUES FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND FOR THE THREE MONTHS ENDED MARCH 31, 2009

(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Net patient service revenue	**100.0%**	**100.0%**
Operating expenses		
Salaries and benefits	41.5%	32.6%
Drugs and supplies	18.2%	15.1%
General and administrative	77.9%	40.3%
Bad debt expense	5.8%	9.9%
Depreciation and amortization	9.2%	7.9%
	152.6%	105.8%
Loss from operations	**(52.7%)**	**(5.8%)**
Other expense (income)		
Distribution, other liabilities, non-controlling interest	0.8%	1.0%
Withholding tax	0.0%	0.0%
Change in fair value of other liabilities, non-controlling interest	(14.4%)	0.0%
(Gain)/ loss on foreign currency	(0.1%)	25.3%
Goodwill and intangible asset impairment	0.0%	0.0%
State franchise tax	0.7%	0.9%
Other expense (income)	0.0%	(0.1%)
	(13.1%)	27.1%
Loss before income taxes and non-controlling interest	**(39.6%)**	**(32.9%)**

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Income tax expense (recovery)		
Current…………………………………………………………………..	0.0%	(10.1%)
Future…………………………………………………………………	0.0%	0.0%
	0.0%	(10.1%)
Non-controlling interests……………………………………………………	4.0%	8.4%
Net loss and comprehensive loss……………………………………………	**(43.6%)**	**(31.2%)**

NET PATIENT SERVICE REVENUES BY PAYORS OF THE NORTHSTAR ASCS FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND THE THREE MONTHS ENDED MARCH 31, 2009

Payors	Q1 2010 Net Patient Service Revenue by Payor Mix	Q1 2009 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay……	75.8%	87.8%
Workers compensation……………………....	15.7%	7.0%
Medicare/Medicaid…………………………...	4.7%	2.1%
Other………………………………………...	3.8%	3.1%
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 March 31, 2010, the Northstar ASCs had two in-network contracts with one of its key private insurance payors. These in-network contracts, along with the case volume decrease at the Palladium Partnership, decreased the payor mix of private insurance and other private pay groups to 75.8% for the three months ended March 31, 2010 from 87.8% for the same period in the prior year.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND THE THREE MONTHS ENDED MARCH 31, 2009

Specialty	Q1 2010 Cases	Q1 2010 Percentage of Cases	Q1 2010 Procedures	Q1 2010 Percentage of Procedures	Q1 2009 Cases	Q1 2009 Percentage of Cases	Q1 2009 Procedures	Q1 2009 Percentage of Procedures
Pain Management…………	573	55.0%	2,457	68.0%	775	44.0%	4,060	59.3%
Orthopaedics………………	311	30.0%	696	19.0%	490	28.0%	1,311	19.2%
Podiatry……………………	8	1.0%	26	1.0%	99	6.0%	532	7.8%
Gastro-intestinal………….	5	0.0%	7	0.0%	138	8.0%	204	3.0%
General Surgery……………	86	8.0%	173	5.0%	117	7.0%	231	3.4%
ENT……………………….	67	6.0%	269	7.0%	124	7.0%	506	7.4%
Total……………………….	**1,050**	**100.0%**	**3,628**	**100.0%**	**1,743**	**100.0%**	**6,844**	**100.1%**

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 March 31, 2010 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 March 31, 2010 were 1,050, a decrease of 693 cases or 39.8% from the 1,743 cases in the same period in 2009. The Kirby and Palladium Partnership experienced a 12.2% and 72.9% decrease in case volume, respectively, from the three months ended March 31, 2009. The decrease impacted all specialties, with pain management experiencing the most significant decline followed by orthopaedics, gastro-intestinal, and podiatry specialty.

Procedure volume for the three months ended March 31, 2010 decreased by 47.0% from 6,844 to 3,628. 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.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

Liquidity refers to an entity's ability to meet its financial obligations and commitments as they become due. The Company is dependent upon cash generated from operating activities of the Northstar Partnerships, which are the major source of financing for its operations and for meeting its contractual obligations. The Company's operating results and cash flows for the three months ended March 31, 2010 reflected the effects of the significant decrease in case volume at the Palladium Partnership and the Kirby Partnership.

For the three months ended March 31, 2010 the Company's cash flow from operations was $10 thousand. This represented a $3.0 million decrease compared to the $3.0 million in cash flows from operations for the three months ended March 31, 2009. The Company's cash flow used in financing activities for the three months ended March 31, 2010 was $0.5 million and capital expenditures were $27 thousand.

As at March 31, 2010, the Company had consolidated net working capital of $6.4 million. Cash balances were $5.7 million and total accounts receivable were $2.0 million. Accounts payable and other current liabilities totalled $2.6 million and total long term liabilities were $3.4 million. However, as a result of certain claims made by the Company's subsidiaries against Dr. Kramer, the Company's founder and former CEO and director, and related entities (discussed below under "Outlook"), there is a significant amount of uncertainty regarding the Company's liquidity needs in 2010 and beyond. The Company may be required to expend significant amount of capital and devote considerable management time to pursue these claims. It is not possible to accurately predict the amount of expenses that will be incurred to pursue or resolve these matters. If the actual costs exceed management's estimates, the Company may not have sufficient cash to fund its working capital requirements during the next twelve months.

Management's plan to maintain its liquidity during the next twelve months continues to be dependent on the success of one or more of the following factors; (i) favourable outcome from binding arbitration of its subsidiaries' claims against the Company's founder, Dr. Kramer and related entities, (ii) re-syndication of the Palladium Partnership or if the re-syndication is unsuccessful, sale of the Company's 70% interest in the Palladium Partnership, and (iii) collection of accounts receivable from the non-partner physicians at the Palladium Partnership. The most important of these factors is the claim against Dr. Kramer. As discussed below, an award recovered pursuant to this claim could be material and resolution of the claim is necessary to allow for future syndication of the Palladium Partnership and fund future growth. However, there is no assurance that Northstar will be successful in its claims or that it will be able to collect all or part of any such award in a timely manner.

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 the Company's subsidiaries against Dr. Kramer, there can be no assurance that the Company will be able to draw down any amounts under the credit facility.

SUMMARY OF QUARTERLY RESULTS

	1st Q 2010	4th Q 2009	3rd Q 2009	2nd Q 2009	1st Q 2009	4th Q 2008	3rd Q 2008	2nd Q 2008
Net patient service revenues	$ 3,100	$ 5,925	$ 6,843	$ 6,612	$ 5,544	$ 11,536	$ 9,364	$ 10,926
Net income (loss) and comprehensive income (loss)	$ (1,352)	$ (13,271)	$ 2,868	$ 1,744	$ (1,728)	$ (75,827)	$ (33,371)	$ 2,890
Net income (loss) per basic share	$ (0.10)	$ (0.95)	$ 0.21	$ 0.13	$ (0.12)	$ (5.45)	$ (2.40)	$ 0.21
Net income (loss) per diluted share	$ (0.10)	$ (0.95)	$ 0.19	$ 0.12	$ (0.12)	$ (5.45)	$ (2.40)	$ 0.21

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
2010	503
2011	707
2012	727
2013	632
2014	94
Thereafter	-
Total	$ 2,663

FINANCIAL INSTRUMENTS

Foreign Exchange Contracts

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

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

Forbearance Agreement

Pursuant to the Repurchase Agreement, the Company purchased the Acquisitions Class A Units from Northstar Holdco for approximately $97 million. Northstar Holdco is obliged to repurchase the Acquisitions Class A Units from the Company for an amount that results in the Company realizing an internal rate of return of 11.1% per annum on the purchase price of the Acquisitions Class A Units (the "Repurchase Price"). Northstar Holdco is required to repurchase the Northstar Acquisitions Class A Units on the twelfth anniversary following the purchase of the Northstar Acquisitions Class A Units by the Company. In addition, Northstar Acquisitions has provided an unsecured guaranty (the "Guaranty") to the Company in support of Northstar Holdco's obligations under the Repurchase Agreement. Northstar Subco has indemnified Northstar Acquisitions on a secured basis in respect of any liabilities that may arise in the course of Northstar Acquisitions' activities. Such indemnity specifically excludes any obligations of Northstar Acquisitions arising in respect of the Acquisitions Class A Units or the Repurchase Agreement. On March 5, 2009, the Company, 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 contained in the Repurchase Agreement (the "Existing Event of Default"); (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 Northstar Acquisitions Class A Units under the Repurchase Agreement, the Company should realize an additional internal rate of return of 2.0% per annum on payments received under the Repurchase Agreement during each fiscal quarter following the date of the Forbearance Agreement for which the Existing Event of Default remains outstanding. Northstar Holdco continues to be in default of its obligations under the Repurchase Agreement. The Company and Northstar Holdco are continuing to evaluate their options under the Repurchase Agreement and the Forbearance Agreement or otherwise. The continuing default by Northstar Holdco under the Repurchase Agreement and any actions that have already been or may be taken by the Company and Northstar Holdco in the future or the failure to take certain actions to date or in the future may result in increased financial and tax risks to Northstar Holdco. See "Risk Factors – We are Subject to U.S. Tax Laws" in the Company's Annual Information Form dated March 15, 2010.

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, Dr. Kramer, who resigned as a director of the Company effective February 6, 2009, owns approximately 18% of the Palladium Partnership.

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

Ventures also provided cash collateral of $5.0 million as required, to support the Company's performance under foreign currency contracts. Ventures received a fee equal to 1.0% of the amount of cash collateral provided at closing of the initial public offering on May 17, 2007. The cash collateral and all income earned thereon was released to Ventures as a result of the Company's decision to close out all of its remaining foreign exchange currency contracts on September 18, 2009.

Included in accrued liabilities as of March 31, 2010 is $2.1 million related to deferred Northstar Subco monthly distributions to Ventures, compared to $2.0 million as of December 31, 2009. 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 March 2010 was less than 110% of the initial full monthly dividend; accordingly, the payment of $2.1 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, provided management services to the Palladium for Surgery – Dallas until December 31, 2009, and to River Oaks Pain Management until July 8, 2009 (the "Managed Centers"). The management agreements with the Managed Centers provided for a management fee of 10% of net collected revenues. The Palladium for Surgery – Dallas is located in Dallas, Texas and began operations in 2005. Dr. Kramer owns 95% of The Palladium for Surgery – Dallas and 100% of River Oaks Pain Management.

Revenue from management fees represents fees charged to the Managed Centers and is based on a percent of collections, for managing the centres' business operations. Since the termination of the management agreements, there were no management fees for the three months ended March 31, 2010, compared to $0.1 million for the same period in the prior year.

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 March 31, 2010, 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 Dr. Kramer, to provide anaesthesiology services for cases performed at the Palladium Partnership. On July 22, 2009, a sixty-day termination notice was provided to Palladium Anaesthesia to terminate the agreement. The termination went into effect September 20, 2009. Subsequent to the termination, the Palladium Partnership engaged with another anaesthesiology group to ensure continuity of its patient care.

In January 2010, Ventures requested in writing that Northstar Subco negotiate in good faith and use its best efforts to purchase Ventures' 12,500 Class B Units in Northstar Subco. Northstar Subco responded to this request in January 2010, noting that under the terms of the Northstar Subco operating agreement, Ventures is not permitted to exercise its negotiation right as a result of Northstar Holdco being in default of certain of its obligations under the Repurchase Agreement.

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.

Management uses different valuation methods to estimate the fair value of other liabilities, non-controlling interest based on various business conditions. For the three months ended March 31, 2010, fair value of the Northstar Subco units held by Ventures was calculated using the market capitalization approach, which calculates the fair value based on the number of shares outstanding and Cdn to US$ currency exchange rate as of March 31, 2010. The market capitalization approach is a change in the valuation technique used during the periods prior to the fourth quarters of 2009, as a result of deferrals, significantly reduced cash flows and claims made against Dr. Kramer. These factors make the discounted cash flow method impracticable to use in calculating the fair value as of March 31, 2010. Should the Company enter into good faith negotiations with Ventures to purchase for cancellation all or any portion of the Northstar Subco and Northstar Acquisitions Class B Units, the price paid for the Class B Units could be different from the $1.4 million fair value pursuant to Canadian GAAP.

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.

Adoption of New Accounting Standards and Developments

International Financial Reporting Standards

In 2008, Canada's Accounting Standards Board (the "AcSB") 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.

In June 2009, the AcSB amended certain requirements related to financial instrument disclosure in response to amendments issued by the International Accounting Standards Board. The new disclosure standards require disclosure of fair values based on a fair value hierarchy as well as enhanced discussion and quantitative disclosure related to liquidity risk. The amended disclosure requirements are effective for annual financial statements relating to fiscal years ending after December 31, 2009. Earlier adoption is permitted. To provide relief for preparers, and consistent with IFRS, the AcSB decided that an entity need not provide comparative information for the disclosures required by the amendments in the first year of application.

The Company 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 (i) an established project structure and governance practices, (ii) detailed timetable for fiscal 2009 and 2010, (iii) identification and allocation of resources, development and execution of a training program, (iv) detailed analysis of all Canadian GAAP to IFRS differences, (v) detailed analysis and selection of all IFRS 1 elections, and (vi) assessment of impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements. This plan was reviewed and accepted by the Audit Committee of the Company in June 2009.

The review to date has found that there are likely to be no material differences to the majority of the accounts appearing in the Company's balance sheet and income statement from what has been reported under Canadian GAAP if the recognition and measurement provisions of IFRS were applied.

The specific area where potential differences in recognition and measurement have been identified between IFRS and Canadian GAAP is related to classification of the Class B Units of Northstar Subco held by Ventures. Accounts that will possibly be impacted include other liabilities, non-controlling interest in the Company's balance sheet, income statement and statements of cash flows. It should be noted that at this stage the diagnostic has been completed and the Company is working through its detailed assessment under phase II. If differences under IFRS are validated, the Company will fully assess the impact of any differences identified on the financial statements, including disclosures, during the third quarter of 2010.

Other Adoptions

Effective, October 1, 2009, the Company adopted Section 3862, Financial instruments – disclosures. In June 2009, the AcSB amended certain requirements related to financial instrument disclosure in response to amendments issued by the International Accounting Standards Board. The new disclosure standards require disclosure of fair values based on a fair value hierarchy as well as enhanced discussion and quantitative disclosure related to liquidity risk. The amended disclosure requirements are effective for annual financial statements relating to fiscal years ending after September 30, 2009. Earlier adoption is permitted. To provide relief for preparers, and consistent with IFRS, the AcSB decided that an entity need not provide comparative information for the disclosures required by the amendments in the first year of application.

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Internal Controls over Financial Reporting and Disclosure

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

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

The CEO and CFO have designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. The Company's management assessed the effectiveness of the Company's disclosure controls and procedures as of March 31, 2010. Based on this assessment, the Company's

Palladium Partnership. As a result of the claim by the third-party payor against non-partner physicians to recover prior payments made under exclusive use agreements, the Company has experienced difficulty in collecting certain accounts receivable from its non-partner physicians. At this time, there are only a nominal number of cases being performed at the Palladium Partnership by non-partner physicians under exclusive use agreements. Without a successful re-syndication of the Palladium Partnership, the partnership will not be able to generate a sufficient amount of working capital on its own to fund operations beyond 2010.

Litigation Update and Other Matters

Claims Against Dr. Donald Kramer

As previously disclosed, Northstar suspended the declaration of dividends on its common shares in January 2009 as a result of difficulties it was experiencing with payment by one of its key third party payors at the Palladium Partnership. In May 2009, Northstar announced that its subsidiaries made claims against Dr. Kramer, related entities and certain former managers under agreements relating to Northstar's acquisition of its interests in the Palladium Partnership. The Company's subsidiaries gave notice of these claims to the escrow agent and have instructed it to not release funds held in escrow for such parties. In November 2009, the Company settled the claims made against certain former managers and agreed to release $0.2 million in escrowed funds to such former managers. As of March 31, 2010, approximately $8.2 million of Dr. Kramer's sale proceeds remained in escrow. In addition, Northstar believes that approximately $1.2 million remains in escrow accounts of other sellers under the Palladium purchase agreement that is owing to Dr. Kramer by such sellers pursuant to certain contractual arrangements among them, and over which Northstar may have a claim.

Under the applicable agreement, resolution of these claims involves mutual good faith discussion, mediation, followed by binding arbitration in Texas. The Company filed a request for mediation with the American Arbitration Association (the "AAA") in July 2009.

Mediation hearings were conducted in September and October 2009. The Company was unable to reach a settlement with Dr. Kramer and filed for binding arbitration which was accepted by the American Arbitration Association on January 22, 2010. The Palladium purchase agreement provides that the arbitration process be completed within six months of filing, although the parties have agreed to two extensions of that time period to allow for certain discussions to occur and to permit the arbitration panel to resolve certain preliminary motions. Northstar expects the arbitration proceedings to conclude late in the third quarter or early in the fourth quarter of 2010.

Northstar's claims against Dr. Kramer, as set out in the AAA filings, relate primarily to alleged false contractual representations and warranties in the Palladium purchase agreement about the state of Palladium's business and its relationships with health insurers. Northstar is seeking damages of up to $55 million.

In response, Dr. Kramer has made counter claims and cross claims against certain of the Company's subsidiaries and their officers relating to the management of the Palladium Partnership, mismanagement of the Palladium for Surgery – Dallas, defamation and alleged tortuous interference with business relationships. Dr. Kramer has indicated in his filings with the AAA that he is seeking damages of up to $1 million. The Company's subsidiaries and their officers dispute these allegations.

While the damages sought by Northstar are material, there can be no assurance that it will be successful in its claims, that it will be successful in obtaining an award for the full amount claimed or that it will be able to collect any such award. Further, any award could be challenged on procedural grounds by Dr. Kramer in a Texas court. Northstar is unable to predict the precise timing of any such court process or the associated costs.

Notice to Escrow Agent

On January 19, 2010, the Company's subsidiaries gave notice to the escrow agent and has instructed it to not release any of the approximately $0.8 million currently held in escrow for one of its Physician Limited Partners, under agreements relating to Northstar's acquisition of a portion of the physicians interest in the Palladium Partnership.

February 18, 2010 News Release

On February 18, 2010, the Company responded to a news release issued on February 17, 2009 on behalf of Mr. Brad Kovnat. The release indicated that Mr. Kovnat, who owns less than one half of one percent of the equity in the Palladium Partnership has asked a Texas court to appoint a receiver for the Palladium for Surgery-Houston and other Northstar subsidiaries. Northstar believes that Mr. Kovnat's claim is meritless and is subject to binding arbitration. Northstar moved to dismiss the lawsuit and refer it to arbitration. The motion is still pending in the state court.

D&O Trust Agreement

On February 4, 2010, the Board of Directors approved the formation of a Directors and Officers Trust Agreement ("D&O Trust Agreement") and an initial funding of $0.5 million. The purpose of the D&O Trust Agreement is to provide necessary protection to the Company's officers and directors in connection with the Company's obligations under the existing indemnity agreements. The trust was funded in May 2010.

Offer for Northstar

On May 5, 2010, Dr. Kramer issued a press release announcing his intentions to make an offer to acquire all of the issued and outstanding common shares of Northstar. Should an offer be received from Dr. Kramer or from any other party, the Company's Board will, consistent with its fiduciary duties and in consultation with its financial and legal advisers, review and consider it and respond in the appropriate manner.

Claims by Dr. Kramer

On May 5, 2010, Dr. Kramer issued a claim against the members of the Northstar Board in their personal capacities. The claim alleges that Northstar's public disclosures included defamatory statements relating to the resyndication of the Palladium Partnership. As a result of these statements, Dr. Kramer claims that he has suffered harm to his personal and professional reputation in Canada and Ontario in particular. Northstar's Board intends to vigorously contest Dr. Kramer's claims and seek indemnification from the Company in connection with such defence.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the consolidated interim financial statements for the three