NORTHSTAR HEALTHCARE INC.

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

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

Northstar Healthcare Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
June 30, 2007

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The following management discussion and analysis of the financial condition and results of operations of Northstar Healthcare Inc. (the "Company" or "NHC") for the 45 day period ended June 30, 2007 is provided as of August 13, 2007. It is supplemental to, and should be read in conjunction with the financial statements of the Company for the forty-five day period ended June 30, 2007. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Substantially all of the Company's operating cash flows are in U.S. dollars, accordingly, all amounts presented herein are stated in U.S. dollars, unless otherwise indicated.

FORWARD LOOKING STATEMENTS

This management's discussion and analysis contains "forward-looking statements" that involve significant known and unknown risks, uncertainties and assumption. Important assumptions relating to the forward-looking statements contained in this management's discussion and analysis include expansion, capital expenditures, competitive conditions and gross economic conditions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, those listed in the "Risk Factors" section of this management's discussion and analysis. Should one or more of these risks or uncertainties materialize or should assumptions underlying the forward-looking statement, including, without limitation, those listed in the "Risk Factors" section of this management's discussion and analysis. 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 very materially from those expressed or implied by the forward-looking statements. These forward-looking statements are made as of the date hereof and we do not intend, and do not assume any obligation to update or revise these forward-looking statements.

NON-GAAP FINANCIAL MEASURES

This discussion and analysis contains references to EBITDA (earnings before interest, taxes, depreciation and amortization). Management believes that EBITDA is a useful supplemental measure of cash available for dividends prior to debt service, capital expenditures, income taxes and other reserves. However, EBITDA is not a recognized earnings measure under Canadian GAAP and does not have a standardized meaning prescribed by Canadian GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss (which are determined in accordance with Canadian GAAP) as an indicator of the performance of the Company or its subsidiaries or as a measure of liquidity and cash flows.

PRESENTATION OF FINANCIAL INFORMATION

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

The period ended June 30, 2007 (part of fiscal year 2007) includes forty-five days of operations. There are no financial statements for the 2006 prior period for the Company (or its subsidiaries) that can be used on a comprehensive basis for comparing the current forty-five day period operating results with a prior period. At the time of the Company's initial public offering, it acquired controlling interests in two distinct businesses: The Palladium for Surgery – Houston, Ltd. (the "Palladium Partnership") and Medical Ambulatory Surgical Suites, LLP (the "Kirby Partnership" and together with the Palladium Partnership, the "Northstar Partnerships"). Historically, neither the Palladium Partnership nor the Kirby Partnership prepared quarterly financial statements. Accordingly, it is impracticable to present prior-period information on a basis consistent with the results for the pro forma combined three months ended June 30, 2007.

This management discussion and analysis includes a summary of the operating results of the Company for the forty-five day period subsequent to the public offering and of the Palladium Partnership and the Kirby Partnership on a combined basis for the period from April 1, 2007 through May 16, 2007 to arrive at pro forma combined operating results of the Company for the three month period ended June 30, 2007. In addition, we have provided a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Palladium Partnership and the Kirby Partnership, for the three- and six-month period ended June 30, 2007 compared with the prior year periods. Cases and procedures are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as net patient service revenues vary by patient, insurance carrier and procedure.

GENERAL

Northstar Healthcare Inc. (the "Company" or "NHC") was incorporated under the *Business Corporations Act* (British Columbia) on March 16, 2007. NHC is a corporation formed to indirectly acquire and/or manage ambulatory surgery centres in the United States, focusing initially on Houston and other metropolitan areas in Texas. NHC used the net proceeds of an initial public offering, including the over-allotment, to indirectly acquire a 70% partnership interest in the "Palladium Partnership and a 60% partnership interest in the "Kirby Partnership, which operate two ambulatory surgery centres (the "Northstar ASCs") located in Houston. In addition, NHC manages an ambulatory surgery centre in Dallas and three pain management clinics in Houston.

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

Together, the Northstar ASCs have seven operating suites, three procedure or treatment rooms typically used by pain management specialists or for colonoscopies, 12 pre-operation beds, 17 post-operation or recovery beds and 91 surgeons with medical staff privileges.

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

Results of Operations for the Pro Forma Combined Three Months Ended June 30, 2007
(in 000's of US $)
(unaudited)

	Actual 45 Days Ended June 30, 2007	Pro forma Combined 46 Days Ended May 16, 2007	Pro forma Combined Three Months Ended June 30, 2007
Net patient service revenue	$ 6,818	$ 7,061	$ 13,879
Operating expenses			
Salaries and benefits	749	622	1,371
Drugs and supplies	503	560	1,063
General and administrative	592	593	1,185
Depreciation	151	163	314
Amortization	51	45	96
	2,046	1,983	4,029
Income from operations	**4,772**	**5,078**	**9,850**
Other expense (income)			
Distributions, non-controlling interest	222	274	496
Withholding taxes	167	191	358
Change in fair value of other liabilities, non-controlling interest	3,050	–	3,050
Unrealized gain on foreign currency	(2,344)	–	(2,344)
State franchise tax	49	–	49
Other expense (income)	(9)	6	(3)
	1,135	471	1,606
Income before income taxes and non-controlling interests	**3,637**	**4,607**	**8,244**

Actual
45 Days Ended

Comparison of the pro forma combined results for the three month period ended June 30, 2007 to the pro forma combined results for the three month period ended March 31, 2007 and comparison of the combined operating statistics for the three month period ended June 30, 2007 to the three month period ended June 30, 2006

The period ended June 30, 2007 includes forty-five days of operations. There are no financial statements for the 2006 prior period for the Company (or its subsidiaries) that can be used on a comprehensive basis for comparing the current forty-five day period operating results with a prior period. At the time of the Company's initial public offering, it acquired controlling interests in two distinct businesses; the Palladium Partnership and the Kirby Partnership. Historically, neither the Palladium Partnership nor the Kirby Partnership prepared quarterly financial statements. Accordingly, it is impracticable to present prior-period information on a basis consistent with the results for the three months ended June 30, 2007.

This management discussion and analysis includes a summary of the operating results of the Company for the forty-six day period prior to the public offering, the period from April 1, 2007 through May 16, 2007, on a combined basis to arrive at pro forma combined operating results for the three month period ended June 30, 2007. These pro forma combined results for the three month period ended June 30, 2007 are compared to the three month period ended March 31, 2007. Though quarterly reports were not prepared historically for the 2006 fiscal year, management is also presenting comparisons between combined operating statistics (cases and procedures) for the three month period ended June 30, 2007 to the same period in the prior year.

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.

Although the Northstar ASCs have historically experienced some seasonality with higher numbers of cases and procedures and net revenues in the third and fourth quarters, there has historically been little seasonality between the first and second quarters.

Comparison of the pro forma combined results for the three month period ended June 30, 2007 to the pro forma combined results for the three month period ended March 31, 2007

Consolidated net patient service revenues ("net revenues") for the three months ended June 30, 2007 presented on a pro forma combined basis totalled $13.9 million, which exceeded the pro forma combined results for the three months ended March 31, 2007 by $1.9 million or 15.6%. Net revenues increased at both of the ambulatory surgery centres owned by the Palladium Partnership and the Kirby Partnership due to an increase in cases and procedures of 93 or 4.1% and 1,373 or 16.1%, respectively. The increase in procedures is primarily due to a shift in focus to more complex cases, resulting in increased procedures and collections per case. The specialties with the greatest growth in both cases and procedures were Pain, Orthopaedics, ENT and Podiatry.

Consolidated salaries and benefits for the pro forma combined results for the three months ended June 30, 2007 totalled $1.4 million, which exceeded the pro forma combined results for the three months ended March 31, 2007 by $47,000 or 3.6%. As a percent of net revenues, salaries and benefits decreased to 9.9% for the pro forma combined results for the three months ended June 30, 2007, a decrease of 1.1% from for the three months ended March 31, 2007, for which period percentage was 11.0% of net revenues. The decrease as a percent of net revenues was primarily due to maintaining staffing levels consistent with the number of cases during the three months ended March 31, 2007. In addition, the Kirby ASC had a decrease in the number of non-clinical employees during the three months ended June 30, 2007.

Consolidated drugs and medical supplies for the pro forma combined results for the three months ended June 30, 2007 totalled $1.1 million, which exceeded the pro forma combined results for the three months ended March 31, 2007 by $0.2 million or 30.0%. As a percent of net revenues, drugs and medical supplies increased to 7.7% for the pro forma combined results for the three months ended June 30, 2007, an increase of 0.9% from for the three months ended March 31, 2007, for which period the percentage was 6.8% of net revenues. The increase was due to an increase in the number of complex cases, resulting in an increase of procedures in the Orthopedic specialty, 93 procedures, and Podiatry specialty, 96 procedures. Both these specialties use a higher amount of medical supplies per case based on the procedures performed.

Consolidated general and administrative expense for the pro forma combined results for the three months ended June 30, 2007 totalled $1.2 million, which exceeded the pro forma combined results for the three months ended March 31, 2007 by $27,000 or 2.3%. As a percent of net revenues, general and administrative expense decreased to 8.5% for three months ended June 30, 2007, a decrease of 1.2% from for the three months ended March 31, 2007, for which period the percentage was 9.7% of net revenues. Most of the general and administrative expenses are fixed and remained consistent during the three months ended June 30, 2007.

Operating income (before distributions, non-controlling interests, withholding taxes, gain on foreign currency translation, change in the fair value of other liabilities, non-controlling interest) of $9.8 million for the three months ended June 30, 2007 exceeded the operating income for the three months ended March 31, 2007 by $1.5 million or 18.6%, as a result of an increase in net revenues of 15.6% and a decrease in salaries and benefits as a percentage of net revenues of 3.6%.

Comparison of the combined operating statistics for the three month period ended June 30, 2007 to the three month period ended June 30, 2006

Total cases for the three months ended June 30, 2007 totalled 2,388, a decrease of 132 cases or 5.2% over the same period in 2006, which totalled 2,520. The decrease was primarily related to the Pain specialty, decrease of 166 cases, and Orthopaedics specialty, decrease of 80 cases, offset by an increase of 88 cases in the ENT specialty, primarily at the Palladium ASC. The decrease in both the Pain and Orthopaedic specialties is primarily due to a shift to more complex cases, resulting in an increase to the number of procedures per case and a shift to ENT specialty cases. Physician vacations in the three month period ended June 30, 2007, which exceed the vacations in the prior year, accounted for the additional decrease in cases. Average collections per case are the highest for ENT, Podiatry and Orthopaedics.

Total procedures for the three months ended June 30, 2007 totalled 9,913, an increase of 1,315 procedures or 15.3% over the same period in 2006, which totalled 8,598. The increase was primarily related to the Pain specialty, increase of 341 procedures, ENT, increase of 493 procedures and Podiatry, increase of 277 procedures, as a result of shifting to more complex cases.

Results of Operations for the Pro Forma Combined Six Months Ended June 30, 2007
(in 000's of US $)
(unaudited)

	Actual 45 Days Ended June 30, 2007	Pro forma Combined January 1, 2007 to May 16, 2007	Pro forma Combined Six Months Ended June 30, 2007
Net patient service revenue	$ 6,818	$ 19,068	$ 25,886
Operating expenses			
Salaries and benefits	749	1,945	2,694
Drugs and supplies	503	1,378	1,881
General and administrative	592	1,753	2,345
Depreciation	151	477	628

	Actual 45 Days Ended June 30, 2007	Pro forma Combined January 1, 2007 to May 16, 2007	Pro forma Combined Six Months Ended June 30, 2007
Amortization	51	134	185
	2,046	5,687	7,733
Income from operations	**4,772**	**13,381**	**18,152**
Other expense (income)			
Distributions, non-controlling interest	222	821	1,043
Withholding taxes	167	574	741
Change in fair value of other liabilities, non-controlling interest	3,050	–	3,050
Unrealized gain on foreign currency	(2,344)	–	(2,344)
State franchise tax	49	–	49
Other expense (income)	(9)	19	10
	1,135	1,414	2,549
Income before income taxes and non-controlling interests	**3,637**	**11,967**	**15,604**
Income tax expense			
Current	133	449	582
Future	410	1,245	1,655
	543	1,694	2,237
Non-controlling interests	**1,725**	**4,075**	**5,800**
Net Income	**$ 1,369**	**$ 6,198**	**$ 7,567**
Net Income per common share (basic and diluted)	**$ 0.10**		
Weighted average shares outstanding (basic and diluted)	**13,117,899**		

Case and Procedure Mix of the Northstar ASCs
For the six months ended June 30, 2006 and 2007

Specialty	2006 Cases YTD	2006 Percentage of Cases YTD	2006 Procedures YTD	2006 Percentage of Procedures YTD	2007 Cases YTD	2007 Percentage of Cases YTD	2007 Procedures YTD	2007 Percentage of Procedures YTD
Pain Management	2,689	57.2%	11,562	70.1%	2,507	53.5%	11,674	63.3%
Orthopaedics	1,089	23.2%	2,773	16.8%	1,054	22.5%	2,887	15.6%
Podiatry	329	7.0%	801	4.9%	317	6.8%	1,360	7.4%
Gastro-intestinal	301	6.4%	433	2.6%	291	6.2%	470	2.5%
General Surgery	130	2.8%	513	3.1%	151	3.2%	593	3.2%
ENT	160	3.4%	410	2.5%	363	7.8%	1,469	8.0%
Total	**4,698**	**100.0%**	**16,492**	**100.0%**	**4,683**	**100.0%**	**18,453**	**100.0%**

Pro forma combined results for the six month period ended June 30, 2007

Net patient service revenues ("net revenues") for the six month period ended June 30, 2007, presented on a pro forma combined basis, totalled $25.9 million. Total cost of operations totalled $7.7 million or 29.9% of net revenues. Operating costs include salaries and benefits of $2.7 million or 10.4% of net revenues, drugs and supplies of $1.9 million or 7.3% of net revenues, general and administrative of $2.3 million or 9.1% of net revenues and depreciation and amortization of $0.8 million or 3.1% of net revenues. Distribution, non-controlling interest totalled $1.0 million, withholding tax totalled $0.7 million, unrealized gain on foreign currency exchange contracts totalled $2.3 million and change in fair value of other liabilities, non-controlling interest totalled $3.0 million. Income tax expense totalled $2.2 million. Non-controlling interests amounted to $5.8 million based on net income before taxes and non-controlling interests of $15.6 million for pro forma combined results for the six month period ended June 30, 2007.

The unrealized gain on foreign currency exchange contracts of $2.3 million relates to the fair value of the five-year foreign currency exchange contracts entered into to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar for future common share dividends.

The change in the fair value of other liabilities, non-controlling interest represents the change in fair value of Ventures' Class B Units of Northstar Healthcare Subco, LLC, during the forty-five day period ending June 30, 2007.

Comparison of the combined operating statistics for the six month period ended June 30, 2007 to the six month period ended June 30, 2006

Total cases for the six months ended June 30, 2007 totalled 4,683, a decrease of 15 cases or 0.3% over the same period in 2006, which totalled 4,698. The slight decrease was primarily related to a decrease in the Pain specialty, decrease of 182 cases and Orthopedic specialty, decrease of 35 cases, offset by an increase in ENT cases of 203. The decrease in both the Pain and Orthopedic specialties is primarily due to a shift to more complex cases, resulting in an increase to the number of procedures per case and a shift to ENT specialty cases. Timing of Physician vacations in the six month period ended June 30, 2007, which exceed the vacations in the prior period, accounted for the additional decrease in cases.

Total procedures for the six months ended June 30, 2007 totalled 18,453, an increase of 1,961 procedures or 10.6% over the same period in 2006, which totalled 16,492. The increase was primarily related to the ENT specialty, increase of 1,059 procedures and Podiatry specialty, increase of 599 procedures, as a result of shifting to more complex cases.

Reconciliation of Net Income to EBITDA
(in 000's of US $)
(unaudited)

	Actual 45 Days Ended June 30, 2007
Net Patient Service Revenue	$ 6,818
Net income	1,369
Add:	
Depreciation	151
Amortization	51
Unrealized gain on foreign currency exchange contracts	(2,344)
Change in fair value of other liabilities, non-controlling interest	3,050
Income taxes	543
EBITDA net of non-controlling interests, before unrealized gain on foreign currency	2,820

exchange contracts and change in fair value of the liabilities, non-controlling interest(1)........	
Less:	
Capital expenditures	(59)
EBITDA net of non-controlling interests, capital expenditures before unrealized gain on foreign currency exchange in fair value of other liabilities, non-controlling interest..............	2,761
EBITDA margin net of non-controlling interests, capital expenditures before unrealized gain on foreign currency exchange contracts and change in fair value of other liabilities, non-controlling interest...	40.5%

(1) Cash available to the Company to pay dividends is $602 less than EBITDA net of controlling interest, before unrealized gain on foreign currency exchange contracts and change in fair value of the liabilities, non-controlling interest on account of (i) $59 of maintenance capital expenditures and (ii) income taxes of $543.

Forty-Five Days Ended June 30, 2007

EBITDA before non-controlling interests of the Physician Limited Partners and distributions to Ventures for the forty-five days ended June 30, 2007 was $3.0 million. The Company has a current policy of distributing its available cash from consolidated operations, subject to applicable laws, by way of a monthly dividend on Common Shares, after the retention of amounts considered reasonable and prudent by the Board of Directors for working capital and other purposes, including capital investment and capital reserves. The first dividend for the forty-five days ended June 30, 2007, was paid on July 16, 2007 in the amount of Cdn $0.148 per Common Share or Cdn $2.1 million (US $1.9 million).

The Company's current monthly dividend rate of Cdn $0.10 per Common Share was established at the time of its IPO Offering and was, in large part, based upon the historical results for the Northstar ASCs (adjusted for certain factors in connection with the change in capital structures, additional expense as a result of becoming a reporting issuer and synergies anticipated from the business combination).

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

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

Dividend declarations are determined based on monthly reviews of the Company's earnings, capital expenditures and related cash flows. Such declarations take into account the Company's structure whereby available cash is to be distributed to the maximum extent considered prudent after (i) capital expenditures, (ii) minority interest, (iii) other expense and tax obligations, and (iv) reasonable capital and other reserves.

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

As of June 30, 2007, the Company had net working capital of $16.5 million, including cash balances of $3.9 million and accounts receivable of $16.4 million. Accounts payable, dividends payable, income tax payable and accrued liabilities totalled $5.0 million. Total assets at June 30, 2007 were $176.5 million and total long-term liabilities were $21.4 million. Cash distributions declared in the period from May 17, 2007 to June 30, 2007 totalled $1.9 million or Cdn $0.148 per common share.

FINANCIAL INSTRUMENTS

Foreign Exchange Forward Contracts

The Company entered into foreign currency exchange flat forward contracts (the "Forward Contracts") to manage the Company's exposure to fluctuations in the exchange rate between U.S. and Canadian currencies, which exposure arises from payment of dividends on its common shares.

As of June 30, 2007, the Company is committed to deliver $1.3 million U.S. dollars monthly in exchange for $1.4 million Canadian dollars as stipulated exchange rates as follows:

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

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

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

RELATED PARTY TRANSACTIONS

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

Ventures holds all of the Acquisitions Class B Units. Each Acquisitions Class B Unit entitles Ventures to receive monthly distributions of cash from Northstar Acquisitions equal to a specified percentage of Northstar Acquisitions' gross management fee revenues (including management fees earned for services earned under the Management and Cost Sharing Agreement and for services provided to other clients of Northstar Acquisitions), payable after all distributions have been made to the holders of Acquisitions Preferred Units and Acquisitions Class A Units.

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

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

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

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 form those estimates.

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Internal Controls over Financial Reporting ("ICOFR")

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

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

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

The Company has not fully completed its review and evaluation of the design of internal controls over financial reporting as envisioned under multilateral instrument 52-109. The Company expects to complete its assessment in fiscal 2008. Common with many small businesses, such as the Northstar Partnerships, lack of segregation of duties, weakness in control environment and IT general control processes were identified as areas where weakness existed. The existence of these weaknesses is to be compensated for by senior management monitoring. The Company is taking steps to augment and improve the design of procedures and controls impacting these areas of weakness over internal controls over financial reporting.

There has been no change in the design of the Company's internal control over financial reporting during the forty-five day period ended June 30, 2007, that would materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Quantitative and Qualitative Disclosures About Market Risk

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

We are exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar because the anticipated dividends by the Company will be paid in U.S. dollars and the dividends will be paid in Canadian dollars. In order to minimize the impact of fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar, we have entered into Canadian dollar/U.S dollar exchange contracts at a rate $1.0888 for the total amount anticipated for dividends to common shareholders. The agreement consists of 60 monthly forward foreign exchange contracts, of which are all still open as of June 30, 2007.

At June 30, 2007, we had unrealized foreign exchange gains on the open forward currency exchange contracts totalling $2.3 million. If the Company had liquidated the contracts and realized a gain, it would be exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar with respect to the dividends to the Common Shareholders.

Risk Factors

In management's opinion, there has been no significant change in the risk factors articulated in the final prospectus dated May 16, 2007.

OUTSTANDING SHARE DATA

At June 30, 2007, the Company had 13,900,852 common shares outstanding.

OUTLOOK

The Company continues its focus on providing high quality health care services, enhancing the experience of patients, and offering expanded and new services. Management believes the Company will continue to benefit from the increasing demand for healthcare services in the United States, which continues to be positively impacted by changing demographics (increasing average age and life expectancy), and advances in science and technology. Nonetheless, there will continue to be industry-wide pressures on reimbursement programs to limit the escalation in healthcare costs.

The Company intends to continue its strategies of enhancing the operating efficiency of the Centers, pursuing acquisitions and continuing the cash distribution practices referred to in Liquidity, Capital Resources and Financial Condition section of this MD&A.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the interim financial statements for the period from May 17, 2007 to June 30, 2007, is available on SEDAR at www.sedar.com.

August 13, 2007