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, 2010 is provided as of August 13, 2010. 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, 2010. The Company's financial statements are prepared in accordancents ow

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, 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 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 managed an ambulatory surgery centre in Dallas until December 31, 2009. In July 2010, the Company's interest in the Palladium Partnership increased to 72.5% due to the purchase by the partnership of a limited partner's interest (discussed under "Outlook").

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 90

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND FOR THE THREE MONTHS ENDED JUNE 30, 2009

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

(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Net patient service revenue	$ 4,429	$ 6,612
Operating expenses		
Salaries and benefits	1,475	1,743
Drugs and supplies	693	812
General and administrative	2,924	3,613
Bad debt expense	227	2
Depreciation and amortization	285	374
	5,604	6,544
Income (loss) from operations	(1,175)	68
Other expense (income)		
Distribution, other liabilities, non-controlling interests	31	87
Change in fair value of other liabilities, non-controlling interests	276	-
Loss/(Gain) on foreign currency	22	(2,642)
State franchise tax	32	(54)
Other expense (income)	(1)	(4)
	360	(2,613)
Income (loss) before income taxes and non-controlling interests	(1,535)	2,681
Income tax expense (recovery)		
Current	-	(125)
	-	(125)
Non-controlling interests	575	1,062
Net income (loss) and comprehensive income (loss)	$ (2,110)	$ 1,744
Net income (loss) per common share		
Basic	$ (0.15)	$ 0.13
Diluted	$ (0.15)	$ 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 as 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 June 30, 2010 totalled $4.4 million, a decrease of $2.2 million or 33.0%, compared to $6.6 million for the same period in 2009. Included in the $4.4 million is $0.6 million related to collections during the second quarter of 2010 that were not recognized as revenues in prior periods. The decline in net patient service revenues was primarily due to a 27.8% decrease in case volume offset by a 2.9% increase in the net patient service revenues per case, after adjusting for collections of prior period patient service revenue, for the three months ended June 30, 2010 versus the same period in 2009. The overall case volume decline was attributable to a 4.9% decrease at the Kirby Partnership and a 66.0% decrease at the Palladium Partnership. The decrease at the Palladium Partnership was due to a lack of cases 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 June 30, 2010, after comparing historical payment data to the estimated net patient service revenues reported in 2009, management determined that actual collections as of June 30, 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 for the three months ended June 30, 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 and six months ended June 30, 2010 is as follows:

	Three Months Ended June 30, 2010	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**
From procedures performed during the period…………….	$ 3,815	$ 5,064	$ 6,354	$ 10,608
From receipts that exceeded prior period revenues……….	539	1,548	939	1,548
From revenues previously not recognized………………….	75	-	235	-
Amount recorded during the period……………………….	**$ 4,429**	**$ 6,612**	**$ 7,528**	**$ 12,156**

Salaries and benefits for the three months ended June 30, 2010 totalled $1.5 million, a decrease of $.3 million from the three months ended June 30, 2009 primarily due to a reduction in the number of employees.

Drugs and medical supplies for the three months ended June 30, 2010 were $0.7 million, a decrease of $0.1 million or 14.6% compared to $0.8 million for the three months ended June 30, 2009. The decrease was due to the overall decrease in case volumes.

General and administrative expense for the three months ended June 30, 2010 totalled $2.9 million, a decrease of $0.6 million or 19.1% from the general and administrative expense for the three months ended June 30, 2009. Legal expenses for the three months ended June 30, 2010 totalled $1.6 million as a result of the takeover bid and continuing arbitration expenses compared to $1.5 million for the same period in 2009.

Bad debt expense for the three months ended June 30, 2010 totalled $0.2 million. Bad debt expense from the same period in the prior year was negligible. A bad debt allowance was established due to collection difficulties with the non-partner physicians on procedures performed by them under use agreements with the Northstar ASCs. The recent collection difficulties are primarily the result of a request by third-party private payors to claw back reimbursements previously made to the non-partner physicians for procedures performed at the Northstar ASCs under the use agreements.

For the three months ended June 30, 2010, the change in fair value of other liabilities, non-controlling interest was $0.3 million and nil for the same period in the prior year. The change in the fair value of other liabilities and non-controlling interest represents the change in fair value of the Class B Units of Northstar Healthcare Subco, L.L.C. ("Northstar Subco") held by Healthcare Ventures Ltd. ("Ventures"). 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 Subco held by Ventures. The price to be paid for such Northstar Subco Class B Units would equal their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Healthcare Acquisitions, L.L.C. ("Northstar Acquisitions"). In connection with the purchase of Northstar Subco Class B Units following an exercise of the negotiation right, Northstar Acquisitions would also 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 are purchased for cancellation from Ventures by Northstar Subco. 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.

For the three months ended June 30, 2010, the loss on foreign currency was negligible, compared to a gain of $2.6 million from the three months ended June 30, 2009. In 2009, the gain on foreign currency primarily relates to the change in the fair value of the foreign currency exchange contracts entered into by the Company to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar relating to the Common Share dividends. During September 2009, the Company sold its position in these contracts.

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 JUNE 30, 2010 AND FOR THE THREE MONTHS ENDED JUNE 30, 2009

(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Net patient service revenue…………..…...………………………………	**100.0%**	**100.0%**
Operating expenses		
Salaries and benefits……………………..…………………………..	33.3%	26.4%
Drugs and supplies……………………..……………………………	15.6%	12.3%
General and administrative…………………………..…………………	66.0%	54.6%
Bad debt expense………………………..……………………………	5.1%	0.0%
Depreciation and amortization………………………………………	6.4%	5.7%
	126.4%	99.0%
Income (loss) from operations……………………………………………	**(26.5%)**	**1.0%**
Other expense (income)		
Distribution, other liabilities, non-controlling interests………………...	0.7%	1.3%
Change in fair value of other liabilities, non-controlling interests……..	6.2%	0.0%
(Gain)/ loss on foreign currency……………………………………..	0.5%	(40%)
State franchise tax……………………………………………………	0.7%	(0.8%)
Other expense (income)………………………………………………	0.0%	(0.1%)
	8.0%	(39.5%)
Income (loss) before income taxes and non-controlling interests ……….	**(34.7%)**	**40.5%**
Income tax expense (recovery)		
Current………………………………………………………………….	0.0%	(1.9%)
	0.0%	(1.9%)
Non-controlling interests…………………………………………………	13.0%	16.1%
Net income (loss) and comprehensive income (loss)………………………	**(47.6%)**	**26.4%**

NET PATIENT SERVICE REVENUES BY PAYORS OF THE NORTHSTAR ASCS FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND THE THREE MONTHS ENDED JUNE 30, 2009

Payors	Q2 2010 Net Patient Service Revenue by Payor Mix	Q2 2009 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay……	80.5%	84.8%
Workers compensation…………………….....	11.4%	13.9%
Medicare/Medicaid…………………………..	4.1%	0.0%
Other…………………………………………..	3.9%	1.3%
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 payors are generally higher when a facility does not have an in-network contract with the payor. As of June 30, 2010, the Northstar ASCs had two in-network contracts with one of its key private insurance payors.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND THE THREE MONTHS ENDED JUNE 30, 2009

Specialty	Q2 2010 Cases	Q2 2010 Percentage of Cases	Q2 2010 Procedures	Q2 2010 Percentage of Procedures	Q2 2009 Cases	Q2 2009 Percentage of Cases	Q2 2009 Procedures	Q2 2009 Percentage of Procedures
Pain Management…………	759	60.0%	3,201	71.0%	852	49.0%	4,184	63.6%
Orthopaedics………………	343	27.0%	821	18.0%	496	28.0%	1,234	18.8%
Podiatry……………………	0	0.0%	0	0.0%	73	4.0%	276	4.2%
Gastro-intestinal…………..	0	0.0%	0	0.0%	125	7.0%	199	3.0%
General Surgery……………	92	7.0%	192	4.0%	93	5.0%	215	3.3%
ENT……………………….	72	6.0%	304	7.0%	115	7.0%	470	7.1%
Total……………………….	**1,266**	**100.0%**	**4,518**	**100.0%**	**1,754**	**100.0%**	**6,578**	**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, 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 June 30, 2010 were 1,266, a decrease of 488 cases or 27.8% from the 1,754 cases in the same period in 2009. Decreased case volumes were experienced in all of the specialties with pain management specialty representing 19% of the overall decrease. The Palladium Partnership attributed most of the decline in case volume to a lack of cases by non-partner physicians, a significant decline in cases performed by existing Physician Limited Partners and difficulties in re-syndicating the center or admitting new Physician Limited Partners.

Procedure volume for the three months ended June 30, 2010 decreased by 31.3% from 6,578 to 4,518. 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.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND FOR THE SIX MONTHS ENDED JUNE 30, 2009
(in 000's of US $, except per share data)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net patient service revenue	**$ 7,528**	**$ 12,156**
Operating expenses		
Salaries and benefits	2,763	3,550
Drugs and supplies	1,258	1,649
General and administrative	5,336	5,847
Bad debt expense	408	550
Depreciation and amortization	571	811
	10,336	12,407
Loss from operations	**(2,808)**	**(251)**
Other expense (income)		
Distribution, other liabilities, non-controlling interests	56	145
Change in fair value of other liabilities, non-controlling interests	(171)	-
(Gain) / loss on foreign currency	19	(1,238)
State franchise tax	53	(6)
Other expense (income)	(2)	(8)
	(45)	(1,107)
Income (loss) before income taxes and non-controlling interests	**(2,763)**	**856**
Income tax expense (recovery)		
Current	-	(686)
	-	(686)
Non-controlling interests	698	1,526

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Drugs and medical supplies for the six months ended June 30, 2010 totalled $1.2 million, a decrease of $0.4 million or 23.7% compared to $1.6 from the six months ended June 30, 2009. A decrease in cases with high supply costs, such as orthopaedics and general surgery contributed to the overall decrease in drugs and medical supplies.

General and administrative expense for the six months ended June 30, 2010 totalled $5.3 million, a decrease of $.5 million from the general and administrative expense for the six months ended June 30, 2009. Legal expense for the six months ended June 30, 2010 totalled $2.5 million, compared to $2.0 million from the same period in 2009.

For the six months ended June 30, 2010, distributions, other liabilities, and non-controlling interests were negligible; the gains/losses on foreign currency were also negligible, compared to a gain of $1.2 million for the six months ended June 30, 2009; and non-controlling interests amounted to $0.7 million based on percentage of minority interests owned by the physician limited partners and Ventures.

For the six months ended June 30, 2010, the change in the fair value of other liabilities, non-controlling interests was a gain of $0.2 million 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 to be paid for such Northstar Subco Class B Units would equal their fair market value plus the fair market value of a corresponding number of Class B Units of Northstar Acquisitions. In connection with the purchase of Northstar Subco Class B Units following an exercise of the negotiation right, Northstar Acquisitions would also 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 are purchased for cancellation from Ventures by Northstar Subco. 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.

For the six months ended June 30, 2010, the loss on foreign currency was negligible, compared to a gain of $1.2 million from the six months ended June 30, 2009. In 2009, the gain on foreign currency exchange primarily relates to the change in the fair value of the foreign currency exchange contracts entered into by the Company to hedge exposure to fluctuations between the U.S. dollar and the Canadian dollar relating to the Common Share dividends. During September 2009, the Company sold its position in these contracts.

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, 2010 AND THE SIX MONTHS ENDED JUNE 30, 2009

(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net patient service revenue	**100.0%**	**100.0%**
Operating expenses		
Salaries and benefits	36.7%	29.2%
Drugs and supplies	16.7%	13.6%
General and administrative	70.9%	48.1%
Bad debt expense	5.4%	4.5%
Depreciation and amortization	7.6%	6.7%
	137.3%	102.2%
Loss from operations	**-37.3%**	**-2.2%**
Other expense (income)		
Distribution, other liabilities, non-controlling interests	0.7%	1.2%
Change in fair value of other liabilities, non-controlling interests	(2.3%)	0.0%
(Gain) / loss on foreign currency	0.3%	(10.2%)
State franchise tax	0.7%	(0.1%)
Other expense (income)	0.0%	(0.1%)
	(0.6%)	(9.1%)
Income (loss) before income taxes and non-controlling interests	**(36.7%)**	**7.1%**
Income tax expense (recovery)		
Current	0.0%	(5.6%)
	0.0%	(5.6%)
Non-controlling interests	9.4%	12.6%
Net income (loss) and comprehensive income (loss)	**(46%)**	**0.1%**

NET PATIENT SERVICE REVENUES BY PAYOR OF THE NORTHSTAR ASCS FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND THE SIX MONTHS ENDED JUNE 30, 2009

Payors	2010 Net Patient Service Revenue by Payor Mix	2009 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay	78.0%	80.0%
Workers compensation	13.7%	12.4%
Medicare/Medicaid	4.4%	0.0%
Other	3.9%	7.6%
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, 2010, the Northstar ASCs had two in-network contracts with one of its key private insurance payors.

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND THE SIX MONTHS ENDED JUNE 30, 2009

Specialty	2010 Cases	2010 Percentage of Cases	2010 Procedures	2010 Percentage of Procedures	2009 Cases	2009 Percentage of Cases	2009 Procedures	2009 Percentage of Procedures
Pain Management…………	1,332	57.7%	5,658	69.5%	1,627	46.6%	8,244	61.5%
Orthopaedics………………	654	28.2%	1,517	18.6%	986	28.2%	2,545	19.0%
Podiatry……………………	8	0.2%	26	0.3%	172	4.9%	808	6.0%
Gastro-intestinal…………..	5	0.2%	7	0.1%	263	7.5%	403	2.9%
General Surgery……………	178	7.7%	365	4.5%	210	6.0%	446	3.3%
ENT……………………….	139	6.0%	573	7.0%	239	6.8%	976	7.3%
Total……………………….	**2,316**	**100.0%**	**8,146**	**100.0%**	**3,497**	**100.0%**	**13,422**	**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, 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.

Case volume for the six months ended June 30, 2010 was 2,316, a decrease of 1,181 cases, or 33.7%, from the 3,497 total cases in the same prior year period. Decreases in case volume were experienced in each specialty, with pain management comprising 25% of the overall decrease in case volume. The Palladium Partnership attributed most of the decline in case volume to a lack of cases by non-partner physicians, a significant decline in cases performed by existing Physician Limited Partners and difficulties in re-syndicating the center or admitting new Physician Limited Partners.

Procedure volume for the six months ended June 30, 2010 decreased by 39.3% from 13,422 to 8,146 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.

SUMMARY OF QUARTERLY RESULTS

	2nd Q 2010	1st Q 2010	4th Q 2009	3rd Q 2009	2nd Q 2009	1st Q 2009	4th Q 2008	3rd Q 2008
Net patient service revenue……………………	$ 4,429	$ 3,100	$ 5,925	$ 6,843	$ 6,612	$ 5,544	$ 11,536	$ 9,364
Net income (loss) and comprehensive income (loss)…………………………………………….	$ (2,110)	$ (1,352)	$ (13,271)	$ 2,868	$ 1,744	$ (1,728)	$ (75,827)	$ (33,371)
Net income (loss) per common share (basic)…..	$ (0.15)	$ (0.10)	$ (0.95)	$ 0.21	$ 0.13	$ (0.12)	$ (5.45)	$ (2.40)
Net income (loss) per common share (diluted)…	$ (0.15)	$ (0.10)	$ (0.95)	$ 0.19	$ 0.12	$ (0.12)	$ (5.45)	$ (2.40)

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 six months ended June 30, 2010 reflected the effects of the significant decrease in case volume at the Palladium Partnership and a smaller decline at the Kirby Partnership.

For the three and six months ended June 30, 2010 the Company's cash flows used in operations was $1.4 million. These represented a 188.6% and 130.2% decrease from the cash flows provided by operations for the three ($1.6 million) and the six months ($4.5 million) ended June 30, 2009, respectively.

As of June 30, 2010, the Company had consolidated net working capital of $4.7 million. Cash balances were $3.6 million, including $0.5 million in restricted cash, and total accounts receivable were $2.3 million. Accounts payable and accrued liabilities totalled $2.9 million and total long term liabilities were $3.7 million. 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 under "Outlook"), there is a significant amount of uncertainty regarding the Company's liquidity in 2010 and beyond. The Company may be required to expend significant amounts 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. As such, the Company may not have sufficient cash to fund its working capital requirements during the next twelve months and may have to sell all or substantially all of the Company's assets with the exception of its claims against Dr. Kramer and his related entities. In connection with any such sale, Northstar will reduce is operating expenses to the greatest extent possible to assist in funding its pursuit of its claims against Dr. Kramer and related entities. On July 30, 2010, in connection with the private placement (discussed under "Outlook"), the parties agreed that a moratorium would be imposed on all of the arbitration and litigation claims through completion of the private placement.

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, there can be no assurance that the Company will be able to draw down any amounts under the credit facility (discussed under "Related Party Transactions"). Upon closing of the private placement described below, the credit facility will be terminated (discussed under "Outlook").

In July 2010, the Company announced it has entered into an agreement with Canada Healthcare Acquisitions Inc. ("CHA"), a corporation indirectly controlled by Dr. Kramer, to issue common shares to CHA representing a majority interest in the Company for Cdn$5.0 million in a non-brokered private placement. Under the terms of the Private Placement, CHA advanced Northstar Cdn$1.016 million of the aggregate subscription price of the Private Placement on August 4, 2010. This advance must be repaid if certain conditions are not met (discussed under "Outlook").

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	336
2011	707
2012	727
2013	632
Thereafter	94
Total	$ 2,496

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 the 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, Donald Kramer, M.D., NHC's co-founder and former CEO and director, owns approximately 18.0% 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. Under the terms of the private placement described under "Outlook", Ventures has agreed to exchange all of its Class B Units of Northstar Acquisitions for common shares of the Company.

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. Under the terms of the private placement described under "Outlook", Ventures has agreed to exchange all of its Class B Units of Northstar Subco for common shares of the Company.

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. Upon closing of the private placement, the credit facility will be terminated (discussed under "Outlook").

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 June 30, 2010 is $2.0 million related to deferred Northstar Subco monthly distributions to Ventures, compared to $1.8 million as of June 30, 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 June 2010 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. Upon closing of the private placement described under "Outlook", Ventures will release its claims in respect of its entitlement to receive the accrued and unpaid distributions due to Ventures in respect to the Northstar Subco Class B Units.

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 or six months ended June 30, 2010, compared to $0.1 million and $0.2 million for the same periods 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 June 30, 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.

On July 30, 2010, the Company announced that it has entered into an agreement to issue common shares representing a majority interest in the Company to CHA for Cdn$5.0 million through a non-brokered private placement (discussed under "Outlook").

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 six months ended June 30, 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 June 30, 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 and his related entities. These factors make the discounted cash flow method impracticable to use in calculating the fair value as of June 30, 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 $1.6 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 ("IFRS")

In January 2006, the Canadian Accounting Standards Board adopted a strategic plan, which included the decision to move financial reporting for Canadian publicly traded enterprises to a single set of globally accepted accounting standards, IFRS, as issued by the International Accounting Standards Board. The effective implementation date of the conversion from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is January 1, 2011. In the first year of adoption, companies will be required to provide comparative information, as if the financial statements of the previous year had been prepared in accordance with IFRS, and to report supplemental information in the financial statements. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and financial statement disclosures.

As a result, the Company hired a third party consultant, to develop a plan to convert its consolidated financial statements to IFRS and execute its IFRS transition project.

The IFRS project comprises four key phases:

- Assessment – this phase included determining the IFRS project resource requirements and identifying the members of the Company's IFRS transition team, and other representatives as required, to execute the project. In addition, this phase included communicating key project requirements and objectives to the Company's Board of Directors and Audit Committee and the hiring of a third party consultant to execute the IFRS transition project.
- Diagnostic – this phase included an assessment of the differences between current Canadian GAAP and IFRS.
- Design – this phase focused on determining the specific impacts on the Company based on application of the IFRS requirements. This phase included the development of a detailed working plan to address the implementation requirements as well as the impact on the Company's information systems, internal controls, financial reporting and business activities.

- Implementation – this phase includes implementing the required changes necessary to adopt IFRS effective January 1, 2011. The focus of this phase is on the finalization of the IFRS conversion plan, approval and implementation of accounting and tax policies, implementation and testing of new processes, systems and controls, calculation of opening IFRS balances and preparation of the financial statements and related disclosures under IFRS.

The Company has completed the assessment, diagnostic and design phases of the IFRS transition project. The implementation phase of the project is currently underway and will be ongoing until adoption of IFRS on January 1, 2011. A summary status of the key elements of the plan is detailed below and accordingly, the Company has identified certain differences between its current accounting policies and those required or expected to apply in preparing IFRS consolidated financial statements as outlined below.

The key elements of the plan have or will take into consideration, amongst other things:

- Identification of differences in Canadian GAAP and IFRS accounting policies and choices and their impacts on the Company's consolidated financial statements,
- Selection of the Company's continuing IFRS accounting policies,
- Changes in financial statement note disclosures,
- Information technology and data system requirements,
- Disclosure controls and procedures, including investor relations and external communications plans relate to the IFRS conversion,
- Identification of the impacts of IFRS conversion on internal controls over financial reporting,
- Financial reporting expertise requirements, including training of personnel or outsourcing recommendations for financial statement preparation, and
- Impacts on other business activities that may be influenced by GAAP measures, such as debt covenants and other contractual arrangements.

Subco Class B Units

<u>Current accounting policy</u>

Under Canadian GAAP, the Subco Class B Units are classified as debt in the Company's consolidated balance sheet.

<u>Expected IFRS accounting policy</u>

Under the criteria outline in IAS 32, *Financial Instruments: Presentation* ("IAS 32"), the Subco Class B units will be classified as equity rather than debt. Equity is not measured subsequent to initial recognition. This represents a significant difference to the current treatment where the Class B units are classified as debt and measured at amortized cost. This reclassification will result in an adjustment to retained earnings in the opening balance sheet. The Company is currently quantifying this difference along with assessing the impact on future earnings, balance sheet ratios and related financial covenants.

Impairment of Long-Lived Assets

<u>Current accounting policy</u>

Long-lived assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of long-lived assets other than indefinite life intangibles, are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value is not recoverable from future expected cash flows, any loss is measured as the amount by which the asset's carrying value exceeds fair value and recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets. Indefinite life intangible assets are subjected to impairment tests on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value.

Expected IFRS accounting policy

Under IAS 36, *Impairment of Assets* ("IAS 36"), the impairment of long-term assets is based on comparing the carrying amount to the recoverable amount of the respective cash generating unit on a pre-tax discounted cash flow basis. The requirement to use discounted cash flows (rather than undiscounted) makes impairment more likely to occur. In addition, IAS 36 requires, under certain circumstances, the reversal of all impairment loss.

The Company will adopt this revised accounting policy on transition to IFRS. Application of the IFRS compliant impairment methodology may increase future volatility of earnings.

Property and Equipment

Current accounting policy

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives of the related assets. Residual values are assumed to be nil. Property under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease. Maintenance and repairs are charged to operations when incurred.

Expected IFRS accounting policy

Under IAS 16, *Property, Plant and Equipment* ("IAS 16"), after the initial recognition, the Company may use the cost model or the revaluation model to account for its property and equipment. Property and equipment items must be depreciated by component and each component must be depreciated over its useful life.

The Company expects to continue using the cost model. No significant components with a different useful life different to the method currently applied under Canadian GAAP. No other differences were identified relating to continued use of the cost method, therefore and thus, no significant changes have been identified from the Company's current accounting policy.

Leases

Under IAS 17, *Leases*, lease classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee, and is made at inception of the lease. A number of indicators are used to assist in lease classification however, quantitative thresholds are not offered as an indicator as under current Canadian GAAP.

The Company will develop internal indicators to assist in lease classification under IFRS.

Non-Controlling Interest

Current accounting policy

Related party transactions are measured at exchange amounts which represent the amount agreed upon by the parties and thus are considered to be executed at fair value.

Expected IFRS accounting policy

There will be no transition difference on the initial recognition of these amounts. However, in accordance with IAS 27R, *Consolidated and Separate Financial Statements (as amended in 2008)* ("IAS 27R"), non-controlling interests will be presented as part of equity.

Revenue Recognition

<u>Current accounting policy</u>

Patient Service Revenue

Patient service revenue is recognized upon the performance of the patient service and when ultimate collection is measurable and reasonably assured. Net patient service revenues are reported at the estimated collectible amounts from patients, third-party payers, and others for services rendered.

Management Fees Revenue

Revenue from management fees represents fees charged to the managed centers, based on a percent of collections, for managing the center's business operations. Management fees are based on patient service revenues collected.

<u>Expected IFRS accounting policy</u>

No significant changes have been identified from the Company's current accounting policy.

Stock Based Compensation

<u>Current accounting policy</u>

The Company has two share unit plans; namely the Deferred Share Unit Plans (issued to Board of Directors) and Restricted Share Unit Plans (issued to employees). The terms of a both share-based payment plans provide the Company with the choice to settle in cash or by the issue of equity instruments. To date, the Company has settled the share awards in equity. The plans are therefore equity-settled.

<u>Expected IFRS accounting policy</u>

The Company will utilize IFRS 1 and thus prospectively apply IFRS 2 for vested awards. The non-vested awards were evaluated under IFRS 2 and no differences were identified. Accordingly, there will be no significant changes from the Company's current accounting policy.

Income Taxes

<u>Current accounting policy</u>

The Company utilizes the assets and liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying value amount and the tax basis of assets and liabilities. The Company measures future income tax assets and liabilities using income tax rates that it expects to apply to taxable income in the years when it expects those differences to be recovered or settled. The Company recognizes the effect of change in tax rates on future income tax assets and liabilities in income in the period that the rate change is effective. A valuation allowance is established when considered necessary to reduce future income tax assets to the amount that is more likely than not to be realized.

<u>Expected IFRS accounting policy</u>

An exposure draft related to income taxes was released by the IASB and a new standard was anticipated prior to IFRS conversion on January 1, 2011, however the scope of that draft has been reduced and it is unlikely that a new standard will be issued prior to IFRS conversion implementation date. As a result, the Company has not finalized analyzing the impact of IAS 12, *Income Taxes*, with respect to the accounting for income taxes.

Intangible Assets

<u>Current accounting policy</u>

Intangible assets are initially recorded at cost. Indefinite life assets are not amortized while assets with finite lives are amortized on a straight-line basis to nil over their estimated useful lives.

<u>Expected IFRS accounting policy</u>

No significant changes have been identified from the Company's current accounting policy other than the impairment analysis as outlined above under IAS 36.

Provisions

<u>Current accounting policy</u>

Under Canadian GAAP provisions are recognized when it is "likely" that a future event will confirm that a liability has been incurred. The term "likely" in this context is a higher recognition threshold than "more likely than not". The term "contingent liability" under Canadian GAAP refers to both recognized and unrecognised uncertain obligations. Canadian GAAP does not have separate terms to describe contingent liabilities that meet the recognition criteria versus those that do not.

<u>Expected IFRS accounting policy</u>

No significant changes have been identified from the Company's current accounting policy.

IFRS transition

With regards to IFRS transition, the Company has thoroughly analyzed the exemptions available under IFRS 1, *"First-time Adoption of International Financial Reporting Standards*" ("IFRS 1") and has elected to use the exemptions related to business combinations and share based payments.

Summary of the IFRS transition plan

The plan addresses the impact of IFRS on accounting policies and implementation decisions, infrastructure, business activities, control activities and financial statement preparation and disclosures. A summary status of the key elements of the transition plan is as follows:

	Key activities	**Status**
Accounting policies and implementation decisions	Identification of differences in Canadian GAAP and IFRS accounting policies; Selection of the Company's ongoing IFRS policies; Selection of the Company's IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") choices; Development of financial statement format; Quantification of effects of change in	The Company has identified differences between accounting policies under Canadian GAAP and accounting policy choices under IFRS, both on an ongoing basis and with respect to certain choices available on conversion, made in accordance with IFRS 1. The Company will continue to progress towards the quantification of the identified differences and choices throughout 2010 and develop its financial statements and supplemental transition disclosures under IFRS for first time adopters

	initial IFRS 1 disclosures and 2010 financial statements as well as transition supplemental disclosures.	prior to January 1, 2011.
Infrastructure Financial reporting expertise	Development of IFRS expertise.	The Company will provide resources, third party consultants, for training the key employees and stakeholders in the fourth quarter of fiscal 2010. Additional training will be ongoing until full adoption in 2011.
Infrastructure Information technology and data systems	Development of systems solution for transition period and post-convergence period.	The Company has determined system requirements and solutions. The impact with respect to information technology and data systems is due to the change in accounting for property, plant and equipment. These changes will largely be implemented at nominal cost and result in the creation of spreadsheets to track information to be recorded to properly account for property, plant and equipment as well as impairment of its long lived tangible and intangible assets.
Business activities Business practices	Identification of impact on business practices; Completion of any required renegotiations/ changes by fiscal year end 2010.	The Company is in the process of analyzing the contractual obligations inclusive of debt covenants and the implications of IFRS on any financing relationships and other arrangements.
Business activities Compensation arrangements	Identification of impact on compensation arrangements; Assessment of required changes in the fourth quarter of 2010.	The Company is in the process of analyzing any compensation policies that rely on indicators derived from the financial statements.
Control activities Internal control over financial reporting	For all accounting policy changes identified, assessment of Internal Controls over Financial Reporting (“ICFR”) design and effectiveness implications; Implementation of appropriate changes in the fourth quarter of 2010.	The Company does not expect any significant change with respect to ICFR.
Control activities Disclosure controls and procedures	For all accounting policy changes identified, assessment of Disclosure Controls and Procedures (“DC&P”) design and effectiveness implications; Implementation of appropriate changes in the fourth quarter of 2010.	The Company is in the process of analyzing any issues with respect to DC&P.

As IFRS evolves during the transition period, the impact of IFRS on the Company will also evolve. It may result in additional accounting changes, some of which may be significant. The Company's transition status is currently on track with the implementation schedule outlined in its plan to adopt IFRS effective January 1, 2011. The Company will continue to monitor any changes to IFRS prior to January 1, 2011, assess the impact of adopting IFRS, and update its management discussion and analysis disclosures quarterly in order to report on the progress of its IFRS transition plan.

Other Accounting Pronouncements Adopted

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 June 30, 2010. Based on this assessment, the Company's CEO and CFO have concluded that, as of June 30, 2010, the Company's disclosure controls and procedures were effective.

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, 2010, 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 inherit limitations, internal controls over financial reporting may not prevent or detect misstatements. Such inherent limitations in internal controls over financial reporting may 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.

As a result of closing out all of its remaining foreign currency exchange contracts, the Company should only be exposed to currency risk on services provided by vendors based in Canada. As of June 30, 2010, the Company had trade payables of C$0.6 million.

RISK FACTORS

Please refer to the risk factors, in addition to the risks discussed herein, set out in the Company's Annual Information Form dated March 15, 2010, for a list of the significant risk factors to which the Company is exposed.

OUTSTANDING SHARE DATA

At August 13, 2010, the Company had 13,900,852 Common Shares outstanding and had granted 1,047,158 units under the Restricted Share Unit Plan and Deferred Share Unit Plan.

OUTLOOK

Kirby Partnership

In 2010, the Kirby Partnership will continue to focus on new marketing programs recommended by Management and approved by the Kirby Center Marketing Council, which is a joint committee consisting of selected Kirby physicians and management. The council reviews and confirms Management's recommendations to marketing proposals developed by Management with the Kirby physician limited partners.

Palladium Partnership

The challenges faced by the Palladium Partnership arising from an inability to collect billings relating to cases performed under exclusive use agreements (and the resulting sharp decline in case volume) and the litigation with Dr. Kramer at the Palladium Partnership, as distinguished from the operational challenges at the Kirby Partnership, continue to be the most significant risks for the Company. Case volumes at Palladium during the first six months of 2010 decreased 69.7% as compared to the same period in 2009. Case volumes will remain low unless the Company is able to re-syndicate the Palladium Partnership. Re-syndication has not yet taken place as a result of two primary 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.

Litigation Update and Other Matters

Equity Financing

On July 30, 2010, the Company announced that it has agreed to issue common shares to CHA pursuant to a non-brokered private placement (the "Private Placement").

In connection with the Private Placement, CHA will subscribe for Cdn$5.0 million in Northstar common shares; in addition, Ventures will exchange for Northstar common shares all of its Class B special units in Northstar Subco, and all of its Class B Special Units of Northstar Acquisitions. Under the terms of the Private Placement, CHA advanced Northstar Cdn$1.016 million of the aggregate subscription price of the Private Placement on August 4, 2010. If the Private Placement is not completed by September 30, 2010, the Company will i) repay the advance to the extent such repayment would not reduce the Company’s available unconsolidated corporate cash balance below $0.5 million, ii) repay any shortfall by issuing Shares to Subscriber at a price equal to the Purchased Shares' subscription price, to the extent such issuance is approved by the Toronto Stock Exchange without requiring shareholder approval; and iii) repay any further shortfall by assigning 50% of Company's cash-flows received from the Kirby Partnership until the advance is fully repaid, such assignment to be secured by a registered lien against Company's interest in the Kirby Partnership. Upon completion of the Private Placement and after giving effect to this exchange, CHA will own or control, directly and indirectly, approximately 56.2% of the outstanding common shares of the Company. After giving effect to the issuance of 14.6 million common shares at approximately Cdn$0.343 per share pursuant to the Private Placement, along with the issuance of 4.2 million common shares in exchange for Class B units, approximately 33 million common shares of Northstar will be outstanding on a fully-diluted basis.

Upon the closing of the Private Placement, the Ventures credit facility will be terminated. Ventures will also release its claims in respect of its entitlement to receive the accrued and unpaid distributions due to Ventures in respect of the Class B Units in Northstar Subco.

Additionally, upon closing of the private placement and the receipt of a full release of all claims against the directors by Dr. Kramer and the Company, and a full release of all claims against the officers by Dr. Kramer, the D&O Trust Agreement will be terminated and the funds held in the trust account will be returned to the Company. Furthermore, the Company will purchase a non-cancellable six year run-off insurance policy for all present and former directors and officers of the Company.

The terms of the Private Placement were negotiated between CHA and a special committee of the Company’s board of directors (the "Special Committee"), consisting solely of independent directors and formed for the purpose of considering a full range of strategic alternatives. The Special Committee received independent legal and financial advice in respect of the Private Placement.

Closing of the Private Placement, which is subject to certain conditions, including the receipt of approval from the Toronto Stock Exchange, is expected to occur on or before September 7, 2010, or as soon as practicable thereafter. The proceeds of the Private Placement will be used for working capital and general corporate purposes.

On August 13, 2010, the parties to the Private Placement Agreement agreed to an amendment to the Private Placement Agreement, which provided that the Company’s five current directors will resign on closing of the Private Placement and will be replaced by nominees of the Subscriber.

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 June 30, 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 discussions, 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. On July 30, 2010, in connection with the private placement discussed under Equity Financing above, the parties agreed that a moratorium would be imposed on all of the arbitration and litigation claims through completion of the private placement. The Company is unable to determine at this time when the arbitration proceedings will be concluded.

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 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 physician's interest in the Palladium Partnership. On July 23, 2010, the parties reached a settlement pursuant to which approximately $.3 million of the escrow fund was released to the Company's subsidiaries in exchange for a mutual release of all claims. In addition, the physician's 3% partnership interest was purchased by the partnership for a nominal amount in accordance with the terms of the partnership agreement. Subsequent to the purchase of the 3% partnership interest, the Company's ownership interest in the Palladium Partnership became 72.5%.

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.

Offer for Northstar

On May 26, 2010, the Company announced that it had received an unsolicited takeover bid by CHA, a corporation indirectly controlled by Dr. Kramer to acquire all the issued and outstanding common shares of Northstar Healthcare for Cdn$0.95 per common share.

On July 27, 2010, the Company announced that the unsolicited offer (the "Offer") by CHA, expired at 5:00 p.m. (Toronto time) on July 26, 2010. CHA subsequently issued a news release stating that the Offer had expired without all conditions to the Offer having been satisfied or waived and, as a result, the CHA had terminated the Offer and would not be taking up any shares under, or extending, the Offer.

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 re-syndication 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. On completion of the Private Placement, these claims will be released by Dr. Kramer.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the consolidated interim financial statements for the three and six months ended June 30, 2010 and the Company's annual information form, is available on SEDAR at www.sedar.com.

August 13, 2010