NORTHSTAR HEALTHCARE INC.

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

For the Three and Nine Months Ended September 30, 2010

The following management discussion and analysis (MD&A) of the financial condition and results of operations of Northstar Healthcare Inc. and Subsidiaries (the "Company" or "NHC") for the three and nine months ended September 30, 2010 is provided as of November 9, 2010. It is supplemental to, and should be read in conjunction with, the financial statements of the Company for the three and nine months ended September 30, 2010. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Substantially all of the Company's operating cash flows are in U.S. dollars and, accordingly, all amounts presented herein are stated in thousands of U.S. dollars, except share and per share data, unless otherwise indicated.

FORWARD LOOKING INFORMATION

This MD&A contains "forward-looking information" (as defined under applicable securities laws). Forward-looking information is typically identified by words such as "believe," "expect," "forecast," "anticipate," "intend," "estimate," "goal," "plan," and "project" and similar expressions of future or conditional verbs such as "will," "may," "should," "could," or "would". These statements reflect current beliefs and are based on information currently available to management. Forward-looking information in this MD&A includes, without limitation, statements made under the headings "Liquidity, Capital Resources and Financial Conditions", "Financial Instruments", "Adopting of New Accounting Standards and Developments", and "Outlook".

By its very nature, forward-looking information involves significant known and unknown risks, uncertainties and assumptions. Important assumptions relating to the forward-looking information contained in this MD&A include expansion, capital expenditures, currency risks, natural disasters, competitive conditions, and gross economic conditions.

Many factors could cause our actual results, performance, or achievements to be materially different from any future anticipated results, performance, or achievements that may be expressed or implied by such forward-looking information, including, without limitation, general economic conditions, general business risks inherent in the ambulatory surgical center ("ASC") industry, including changing surgeon and patient preferences, numerous federal, state and local laws, competition from other healthcare providers, payor mix and our dependence on payment from third-party payors, including private insurers, managed care organizations and government healthcare programs, the financial and operating attributes of NHC as at the date hereof, and the successful attainment of goals related to any proposed new business plan and future growth opportunities, including our proposed re-syndication efforts. For a description of risks that could cause our actual results to materially differ from our current expectations, please see the section titled "Risk Factors" in NHC's Annual Information Form, for the year ended December 31, 2009, filed with Canadian securities regulators. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Should one or more of these risks or uncertainties materialize or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking information. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

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

PRESENTATION OF FINANCIAL INFORMATION

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

We have included a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Palladium Partnership and the Kirby Partnership for the three and nine months ended September 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.

On September 30, 2010, the Company finalized a private placement of common shares which resulted in a change of control. Upon closing of the private placement, the Company issued 14,583,417 common shares to Canada Healthcare Acquisitions, Inc. (CHA) for $5 million Canadian dollars (CAD) in cash and 4,195,029 common shares to Healthcare Ventures, Ltd. ("Ventures") in exchange for all of its Class B Units in Northstar Healthcare Subco, LLC ("Northstar Subco") and Northstar Healthcare Acquisitions, LLC ("Northstar Acquisitions"). Both CHA and Ventures are indirectly controlled by Donald Kramer, M.D. In conjunction with the closing of the private placement, the Board of Directors (BOD) resigned and was replaced with a new BOD. The newly appointed BOD named Dr. Kramer as Chairman.

On October 27, 2010, the Company's BOD announced that Dr. Kramer and Ms. Donna Alexander rejoined Northstar's senior management team in their previous capacities as Chief Executive Officer and Chief Operating Officer, respectively. The appointments took effect immediately. In connection with these appointments, the former CEO, Steve Linehan, left the Company.

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 surgeons who performed procedures in 2009. During the first nine months of 2010, 38 surgeons performed procedures.

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010
AND FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009
(In thousands of U.S. dollars except share and per share amounts)

	(unaudited) Three months ended September 30, 2010	2009
NET PATIENT SERVICE REVENUE	$ 2,559	$ 6,843
OPERATING EXPENSES:		
Salaries and benefits	783	1,116
Drugs and supplies	524	810
General and administrative	1,003	1,136
Bad debt expense	91	264
Depreciation and amortization	655	294
Total operating expenses	3,056	3,620
(LOSS) INCOME FROM OPERATIONS	(497)	3,223
CORPORATE COSTS		
Salaries and benefits	311	453
General and administrative	669	401
Legal expenses	612	878
Depreciation	8	9
Total corporate costs	1,600	1,741
OTHER EXPENSE (INCOME)		
Class B Unit distributions	23	133
Gain on derecognition of Class B Units	(2,045)	-
Loss (gain) on foreign currency, net	21	(2,654)
State franchise tax	13	49
Other income	(282)	(3)
Total other expense (income)	(2,270)	(2,475)
NET INCOME	173	3,957
NET (LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(142)	1,089
NET INCOME ATTRIBUTABLE TO NORTHSTAR HEALTHCARE	$ 315	$ 2,868
NET INCOME PER BASIC COMMON SHARE	$ 0.02	$ 0.21
NET INCOME PER FULLY DILUTED COMMON SHARE	$ 0.02	$ 0.19
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC)	13,900,852	13,900,852
WEIGHTED AVERAGE SHARES OUTSTANDING (FULLY DILUTED)	14,919,007	15,197,500

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 performed. 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 September 30, 2010 totaled $2.6 million, a decrease of $4.2 million or 62.6%, compared to $6.8 million for the same period in 2009. There were no collections during the third quarter of 2010 that were not recognized as revenues in prior periods. The decline in net patient service revenues was primarily due to a 37.7% decrease in case volume and a 3.4% decrease in the net patient service revenues per case for the three months ended September 30, 2010 versus the same period in 2009. The overall case volume decline was attributable to a 13.6% decrease at the Kirby Partnership and a 91.7% 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 leasing the ASC license to non-partner physicians. This model created 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 allegations by third party payors 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. The Palladium Partnership may not be able to collect existing receivables from payors billed under the exclusive use agreements. 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. Due to certain physician limited partners failing to meet their contractual obligations and the discontinued promotion of exclusive use cases, case volume at the Kirby Partnership was negatively impacted. 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 September 30, 2010, after comparing historical payment data to the estimated net patient service revenues reported in 2009, management determined that actual collections as of September 30, 2010 approximated the reported net patient service reported for the period. An analysis of the revenues recorded for the three and nine months ended September 30, 2010 is as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
From procedures performed during the period	$ 2,559	$ 4,255	$ 8,914	$ 14,863
From receipts that exceeded prior period revenues	-	1,330	939	2,878
From revenues previously not recognized	-	1,258	235	1,258
Amount recorded during the period	$ 2,559	$ 6,843	$ 10,088	$ 18,999

Salaries and benefits for the three months ended September 30, 2010 totaled $0.8 million, a decrease of $0.3 million from the three months ended September 30, 2009 primarily due to a reduction in the number of employees.

Drugs and medical supplies for the three months ended September 30, 2010 were $0.5 million, a decrease of $0.3 million or 35.3% compared to $0.8 million for the three months ended September 30, 2009. The decrease was due to the overall decrease in case volume.

General and administrative expense for the three months ended September 30, 2010 totaled $1 million, a decrease of $0.1 million or 11.7% from the general and administrative expense for the three months ended September 30, 2009.

Bad debt expense for the three months ended September 30, 2010 totaled $0.1 million. Bad debt expense from the same period in the prior year totaled $0.3 million. A bad debt allowance of $1.2 million was established due to collection difficulties with the non-partner physicians on procedures performed by them under exclusive 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 exclusive use agreements. Management intends to aggressively pursue these receivables.

Depreciation for some of our leasehold improvements was calculated using the estimated useful lives of the related assets as opposed to the life of the lease in prior periods. This resulted in additional depreciation of $0.4 million for the three months ended September 30, 2010.

Corporate costs for the three months ending September 30, 2010 were consistent with the three months en39(0)-7.00239(.)-3 ne

RESULTS OF OPERATIONS AS A PERCENTAGE OF NET PATIENT REVENUES
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010
AND FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009

	(unaudited) Three months ended September 30,	
	2010	**2009**
NET PATIENT SERVICE REVENUE	100.0%	100.0%
OPERATING EXPENSES:		
Salaries and benefits	30.6%	16.3%
Drugs and supplies	20.5%	11.8%
General and administrative	39.2%	16.6%
Bad debt expense	3.6%	3.9%
Depreciation and amortization	25.6%	4.3%
Total operating expenses	119.5%	52.9%
(LOSS) INCOME FROM OPERATIONS	-19.5%	47.1%
CORPORATE COSTS		
Salaries and benefits	12.2%	6.6%
General and administrative	26.1%	5.9%
Legal expenses	23.9%	12.8%
Depreciation	0.3%	0.1%
Total corporate costs	62.5%	25.4%
OTHER EXPENSE (INCOME)		
Class B Unit distributions	0.9%	1.9%
Gain on derecognition of Class B Units	-79.9%	0.0%
Loss (gain) on foreign currency, net	0.8%	-38.8%
State franchise tax	0.5%	0.7%
Other income	-11.0%	0.0%
Total other expense (income)	-88.7%	-36.2%
NET INCOME	6.7%	57.9%
NET (LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-5.6%	15.9%
NET INCOME ATTRIBUTABLE TO NORTHSTAR HEALTHCARE	12.3%	42.0%

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 September 30, 2010, the Northstar ASCs had two in-network contracts with one of its key private insurance payors.

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

Payors	Q 3 2010 Net Patient Service Revenue by Payor Mix	Q 3 2009 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay	72.2%	84.8%
Workers compensation	18.1%	11.0%
Medicare/Medicaid	7.4%	2.6%
Other	2.3%	1.6%
TOTAL	**100.0%**	**100.0%**

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

Specialty	Q3 2010 Cases	Q3 2010 % Cases	Q3 2010 Procedures	Q3 2010 % Procedures	Q3 2009 Cases	Q3 2009 % Cases	Q3 2009 Procedures	Q3 2009 % Procedures
Pain Management	576	59.2%	2,291	70.9%	741	47.5%	3,431	60.6%
Orthopedics	266	27.4%	616	19.0%	436	27.9%	1,039	18.3%
Podiatry	1	0.1%	1	0.0%	48	3.1%	233	4.1%
Gastro-intestinal	-	0.0%	-	0.0%	107	6.9%	181	3.2%
General Surgery	70	7.2%	146	4.5%	113	7.2%	228	4.0%
ENT	59	6.1%	180	5.6%	116	7.4%	556	9.8%
TOTAL	972	100.0%	3,234	100.0%	1,561	100.0%	5,668	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 September 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 September 30, 2010 were 972, a decrease of 589 cases or 37.7% from the 1,561 cases in the same period in 2009. Decreased case volumes were experienced in all of the specialties with orthopaedics and pain management specialty representing 56.9% 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 September 30, 2010 decreased by 42.9% from 5,668 to 3,234. 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 NINE MONTHS ENDED SEPTEMBER 30, 2010
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009
(In thousands of U.S. dollars except share and per share amounts)

	(unaudited) Nine months ended September 30, 2010	2009
NET PATIENT SERVICE REVENUE	$ 10,088	$ 18,999
OPERATING EXPENSES:		
Salaries and benefits	2,612	3,528
Drugs and supplies	1,782	2,459
General and administrative	2,918	3,802
Bad debt expense	499	814
Depreciation and amortization	1,208	1,088
Total operating expenses	9,019	11,691
INCOME FROM OPERATIONS	1,069	7,308
CORPORATE COSTS		
Salaries and benefits	1,245	1,592
General and administrative	1,588	1,621
Legal expenses	3,117	2,837
Depreciation	26	26
Total corporate costs	5,976	6,076
OTHER EXPENSE (INCOME)		
Class B Unit distributions	79	278
Gain on change in fair value of Class B Units, net	(171)	-
Gain on derecognition of Class B Units	(2,045)	-
Loss (gain) on foreign currency, net	40	(3,892)
State franchise tax	66	43
Other income, net	(285)	(11)
Total other expense (income)	(2,316)	(3,582)
NET (LOSS) INCOME BEFORE INCOME TAXES	(2,591)	4,814
INCOME TAX (BENEFIT) EXPENSE	-	(685)
NET (LOSS) INCOME	(2,591)	5,499
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	555	2,615
NET (LOSS) INCOME ATTRIBUTABLE TO NORTHSTAR HEALTHCARE	$ (3,146)	$ 2,884
NET (LOSS) INCOME PER BASIC COMMON SHARE	$ (0.23)	$ 0.21
NET (LOSS) INCOME PER FULLY DILUTED COMMON SHARE	$ (0.23)	$ 0.20
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC)	13,900,852	13,900,852
WEIGHTED AVERAGE SHARES OUTSTANDING (FULLY DILUTED)	13,900,852	14,522,960

Net patient service revenues for the nine months ended September 30, 2010 totaled $10.1 million, compared to $19 million for the nine months ended September 30, 2009, a decrease of $8.9 million or 46.9%. Included in the $10.1 million is $1.2 million related to collections during the nine months ending September 30, 2010 that were not recognized as revenues in prior periods because of collectability concerns. The decline in net patient service revenues was primarily a result of a 35.0% decrease in case volume accompanied by a 7.7% decrease in net patient service revenues per case, after adjusting for out of period collections, for the nine months ended September 30, 2010 from the same period in 2009. The overall case volume decline was attributable to a 10.1% decrease at the

Kirby Partnership and a 75.2% decrease at the Palladium Partnership. The decrease at the Palladium Partnership was due to a lack of cases by non-partner physicians. The decrease in the reimbursement rate is directly associated with the volume decrease in cases with higher reimbursement rates at the Palladium Partnership.

Salaries and benefits for the nine months ended September 30, 2010 totaled $2.6 million, a decrease of $0.9 million or 26% from the nine months ended September 30, 2009 primarily due to a significant reduction in the number of employees.

Drugs and medical supplies for the nine months ended September 30, 2010 totaled $1.8 million, a decrease of $0.7 million or 27.5% compared to $2.5 million from the nine months ended September 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 nine months ended September 30, 2010 totaled $2.9 million, a decrease of $0.9 million from the general and administrative expense for the nine months ended September 30, 2009. The decrease was due to the overall decrease in case volume.

Bad debt expense for the nine months ended September 30, 2010 totaled $0.5 million, a decrease of $0.3 million or 38.7% from the nine months ended September 30, 2009. 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.

Depreciation for some of our leasehold improvements was calculated using the estimated useful lives of the related assets as opposed to the life of the lease in prior periods. This resulted in additional depreciation of $0.4 million for the nine months ended September 30, 2010.

Corporate costs for the nine months ending September 30, 2010 were consistent with the nine months ended September 30, 2009. Corporate costs increased by 85% as a percentage of revenues. Legal expenses for the nine months ended September 30, 2010 totaled $3.1 million as a result of arbitration expenses and a take-over offer that was eventually retracted by Dr. Kramer, compared to $2.8 million for the nine months ended September 30, 2009.

For the nine months ended September 30, 2010, the change in the fair value of Class B Units is recorded as an income or expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures, which entitled 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 and Northstar Acquisitions held by Ventures at fair market value.

Upon the closing of the private placement, on September 30, 2010, Ventures gave up its rights to all Class B Units and forgave the related deferred distributions in exchange for 4,195,029 common shares of the Company. This resulted in a gain of $2 million calculated by the excess of the fair market value of the common shares issued over the liability that was relieved.

For the nine months ended September 30, 2010, the loss on foreign currency was immaterial compared to a gain of $3.9 million from the nine months ended September 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.

Other income of $0.3 million represents amounts released from escrow from one of Palladium's physician limited partners under agreements relating to Northstar's acquisition of a portion of the physician's interest in the Palladium Partnership.

RESULTS OF OPERATIONS AS A PERCENTAGE OF NET PATIENT REVENUES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

	(unaudited) Nine months ended September 30, 2010	2009
NET PATIENT SERVICE REVENUE	100.0%	100.0%
OPERATING EXPENSES:		
Salaries and benefits	25.9%	18.6%
Drugs and supplies	17.7%	12.9%
General and administrative	28.9%	20.0%
Bad debt expense	5.0%	4.3%
Depreciation and amortization	12.0%	5.7%
Total operating expenses	89.5%	61.5%
INCOME FROM OPERATIONS	10.5%	38.5%
CORPORATE COSTS		
Salaries and benefits	12.3%	8.4%
General and administrative	15.7%	8.6%
Legal expenses	30.9%	14.9%
Depreciation	0.3%	0.1%
Total corporate costs	59.2%	32.0%
OTHER EXPENSE (INCOME)		
Class B Unit distributions	0.8%	1.5%
Gain on change in fair value of Class B Units, net	-1.7%	0.0%
Gain on derecognition of Class B Units	-20.3%	0.0%
Loss (gain) on foreign currency, net	0.4%	-20.5%
State franchise tax	0.7%	0.2%
Other income	-2.8%	-0.1%
Total other expense (income)	-22.9%	-18.9%
NET (LOSS) INCOME BEFORE INCOME TAXES	-25.8%	25.4%
INCOME TAX (BENEFIT) EXPENSE	0.0%	-3.6%
NET (LOSS) INCOME	-25.8%	29.0%
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	5.5%	13.8%
NET (LOSS) INCOME ATTRIBUTABLE TO NORTHSTAR HEALTHCARE	-31.3%	15.2%

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

Net patient service revenues from private insurance and private pay payors are generally higher when a facility does not have an in-network contract with the payor. As of September 30, 2010, the Northstar ASCs had two in-network contracts with one of its key private insurance payors.

NET PATIENT SERVICE REVENUES BY PAYORS OF THE NORTHSTAR ASCS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010
AND FOR THE NINE MONTHS ENDED SEPTEMBER 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	76.5%	86.6%
Workers compensation	14.8%	8.6%
Medicare/Medicaid	5.2%	2.6%
Other	3.5%	2.2%
TOTAL	**100.0%**	**100.0%**

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

Specialty	2010 Cases	2010 % Cases	2010 Procedures	2010 % Procedures	2009 Cases	2009 % Cases	2009 Procedures	2009 % Procedures
Pain Management	1,908	58.0%	8,071	69.8%	2,368	46.9%	11,675	61.1%
Orthopedics	920	28.0%	2,159	18.7%	1,422	28.1%	3,584	18.8%
Podiatry	9	0.3%	27	0.2%	220	4.3%	1,041	5.5%
Gastro-intestinal	5	0.2%	7	0.1%	370	7.3%	584	3.1%
General Surgery	248	7.5%	533	4.6%	323	6.4%	674	3.5%
ENT	198	6.0%	759	6.6%	355	7.0%	1,532	8.0%
TOTAL	3,288	100.0%	11,556	100.0%	5,058	100.0%	19,090	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 nine month period ended September 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 nine months ended September 30, 2010 was 3,288, a decrease of 1,770 cases, or 35.0%, from the 5,058 total cases in the same prior year period. Decreases in case volume were experienced in each specialty, with orthopaedics and pain management comprising 54.4% 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 nine months ended September 30, 2010 decreased by 39.5% from 19,090 to 11,556 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

Specialty	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Net patient service revenue	$ 2,559	$ 4,429	$ 3,100	$ 5,925	$ 6,843	$ 6,612	$ 5,544	$ 11,536
Net income (loss)	$ 315	$ (2,110)	$ (1,351)	$ (13,271)	$ 2,868	$ 1,744	$ (1,728)	$ (75,827)
Net income (loss) per common share (basic)	$ 0.02	$ (0.15)	$ (0.10)	$ (0.95)	$ 0.21	$ 0.13	$ (0.12)	$ (5.45)
Net income (loss) per common share (fully diluted)	$ 0.02	$ (0.15)	$ (0.10)	$ (0.95)	$ 0.19	$ 0.12	$ (0.12)	$ (5.45)

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

On September 30, 2010, the Company completed a private placement of 14,583,417 common shares to CHA, a corporation indirectly controlled by Dr. Kramer, for CAD $5 million in cash. Concurrent with the private placement, Ventures exchanged all of its Class B Units in Northstar Subco and Northstar Acquisitions for 4,195,029 common shares of the Company.

As a result of the private placement, the Company's obligations to Ventures in respect of deferred distributions on the Class B Units of Northstar Subco and Northstar Acquisitions, respectively, were terminated. Also terminated was a $5 million revolving credit facility that had been provided by Ventures to the Company at the time of the IPO.

For the three and nine months ended September 30, 2010 the Company's cash flows used in operations was $2.4 million and $3.8 million, respectively. These represented a significant decrease from the cash flows provided by operations for the three ($2.2 million) and the nine months ($6.7 million) ended September 30, 2009, respectively.

As of September 30, 2010, the Company had consolidated net working capital of $7.2 million. Cash balances were $4.7 million and total accounts receivable were $1.9 million. Accounts payable and accrued liabilities totaled $1.4 million and there were no long-term liabilities.

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

The Company underwent a change of control as a result of the private placement of common shares on September 30, 2010. CHA and Ventures, both directly and indirectly controlled by Dr. Kramer, held 56.2% of all of the outstanding common shares of the Company at the closing of the private placement.

Donald Kramer, M.D., is the sole limited partner of Ventures. Until the closing of the private placement, Ventures held all of the Northstar Subco Class B Units. Each Northstar Subco Class B Unit entitled 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; provided that if the Company's cash available to pay dividends for any month is less than 110% of the initial full monthly dividend following the IPO in 2007, Ventures' distribution from Northstar Subco is deferred by the amount of any shortfall .

Until the closing of the private placement, Ventures also held all of the Northstar Acquisitions Class B Units. Each Northstar Acquisitions Class B Unit entitled Ventures to receive monthly distributions of cash from Northstar Acquisitions equal to 12.5% 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.

As of September 30, 2010, there are no accrued liabilities related to deferred Northstar Subco monthly distributions to Ventures, compared to $2 million as of September 30, 2009. In conjunction with the closing of the private placement, Ventures terminated all of its rights, including its rights to deferred distributions, on its Class B Units of Northstar Subco and Northstar Acquisitions, respectively.

Ventures provided a $5 million revolving credit facility to Northstar Subco in conjunction with the IPO in 2007. The credit facility bore interest at the 30 day LIBOR plus 300 basis points, payable monthly. In addition, the Company incurred 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. The revolving credit facility was cancelled on September 30, 2010 upon closing of the private placement. No amounts were drawn on the credit facility.

Ventures also provided cash collateral of $5 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 IPO on May 17, 2007. During the year ended December 31, 2009, the Company sold its position in the foreign currency contracts and authorized the release of the cash collateral to Ventures.

Until December 31, 2009 Northstar Acquisitions provided management services to The Palladium for Surgery – Dallas. Until July 8, 2009 Northstar Acquisitions provided management services to River Oaks Pain Management (together with the Palladium for Surgery – Dallas, the "Managed Centers"). The Palladium for Surgery –Dallas is located in Dallas, Texas and began operations in 2005. On July 8, 2009, River Oaks Pain Management ceased operations. Dr. Kramer owns 95% of The Palladium for Surgery – Dallas and 100% of River Oaks Pain Management. The Managed Centers were managed by the Company pursuant to separate management agreements. The management agreements provided for a management fee of 10% of collected revenues.

Revenue from management fees represents fees charged to the Managed Centers, based on a percent of collections, for managing the centers' business operations. Since the termination of the management agreements, there were no management fees for the three or nine months ended September 30, 2010, compared to fees of $0.1 million and $0.3 million for the three and nine months ended September 30, 2009.

Physicians who hold a non-controlling interest in the Northstar Partnerships routinely provide independent professional services directly to patients utilizing the Northstar ASCs.

These transactions are measured at exchange amounts agreed upon by the parties.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

ADOPTING OF NEW ACCOUNTING STANDARDS AND DEVELOPMENTS

Recent Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Company are as follows:

> In 2008, Canada's Accounting Standards Board (the "AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards (IFRS) over a transitional period currently expected to be about five years. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the effects of our financial statements under IFRS.
>
> 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. This new section will be applicable to financial statements relating to the Company's interim periods and fiscal years 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 Company's interim periods and fiscal years 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.

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 (IAS), and reporting 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 of 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, among 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>

As of September 30, 2010, there are no Subco Class B Units. Under Canadian GAAP, the Subco Class B Units are classified as debt in the Company's consolidated balance sheet at December 31, 2009.

<u>Expected IFRS accounting policy</u>

Under the criteria outline in IAS 32, *Financial Instruments: Presentation*, the Subco Class B units will be classified as equity rather than debt in the periods they exist. 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.

<u>Expected IFRS accounting policy</u>

Under IAS 36, *Impairment of Assets*, 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

<u>Current accounting policy</u>

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.

<u>Expected IFRS accounting policy</u>

Under IAS 16, *Property, Plant and Equipment*, 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

<u>Current accounting policy</u>

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.

<u>Expected IFRS accounting policy</u>

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)*, 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.

Expected IFRS accounting policy

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

Stock Based Compensation

Current accounting policy

The Company has two share unit plans; namely the Deferred Share Unit Plans (issued to BOD) 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.

Expected IFRS accounting policy

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.

Provisions

Current accounting policy

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.

Expected IFRS accounting policy

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*" 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 initial IFRS 1 disclosures and 2010 financial statements as well as transition supplemental disclosures.	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 has continued to progress towards the quantification of the identified differences and choices throughout 2010 and has now developed its financial statements and supplemental transition disclosures under IFRS for first time adopters prior to January 1, 2011.
Infrastructure Financial reporting expertise	Development of IFRS expertise.	The Company provided 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 MD&A 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 September 30, 2010. Based on this assessment, the Company's CEO and CFO have concluded that, as of September 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 nine months ended September 30, 2010, that would materially affect 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 September 30, 2010, the Company had trade payables of CAD $0.1 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 November 9, 2010, the Company had 33,344,210 common chares outstanding.

OUTLOOK

Transformation in the U.S. healthcare delivery system has accelerated with the passage in March 2010 of the U.S. Patient Protection and Affordable Care Act, known as "the health reform act" or "Obamacare". While the legislation takes effect December 31, 2010, there is a built-in window to allow for a transition period. An important design in the Act is to facilitate the development of "Accountable Care Organizations", or ACOs. ACOs will require freestanding facilities to align with larger organizations which would become eligible for insurance contracting. This is creating a disruption among the independent facilities that must now seek appropriate strategic alignments.

The Act has also placed certain prohibitions upon physicians having a direct ownership in hospitals. As a result, many physicians need to divest their equity in existing entities. For the physician owned hospitals, there is an urgency to convert this equity into publically traded equity during the transition period, which will enable them to meet an exception to the prohibitions. Selling to one of the larger hospital systems is not an acceptable option for many physicians who view these large systems as having been predatory upon independent medical practice.

The other options available to them are either to acquire a public vehicle, develop an initial public offering or be acquired by a health care organization with an existing public listing. At this time, there are few health care organizations with a public listing, Northstar being one of them. And, as the Company's current facilities are licensed as "day surgery centers", not as hospitals, they are therefore exempt from the ownership prohibition. Over and above this, the doctor-centric culture of Northstar Healthcare fits well with that of the physician owned hospitals.

Northstar is very well positioned to provide a solution to the principals of many physician-owned hospitals. The Company has the potential to offer both the doctor-focused working environment that many facility owners desire as well as the potential for them to participate in a dynamic, growing company. The Company's new management team has already initiated discussions with a number of potential merger candidates as it seeks opportunities for Northstar to actively participate in this exciting arena.

While we design this longer-term strategy to focus upon hospital acquisitions, management is also focused on a number of initiatives to reenergize its existing facilities:

Palladium Facility

Despite the challenges the Palladium Partnership has faced in the past, management believes that through its marketing and re-syndication efforts, the decline in case volumes can be reversed. A new entity has been formed, MicroSurgery Institute of Houston ("MSI") as a joint venture between the Palladium Partnership and up to fifteen prospective physician partners to use the Palladium facility. Management expects to confirm the addition of its initial physicians shortly. Northstar will acquire Dr. Kramer's interest in the Palladium partnership and will manage the new MSI for its standard 5.5% of center collections. The acquisition of Kramer's interest will be based upon an independent valuation. This joint venture is intended to have a contractual one year life during which time management will evaluate Palladium's longer term options. The partners in MSI intend to obtain commercial funding for a credit facility to cover the operational costs during the initial period.

Kirby Surgical Center

The new management team has begun working with the surgeon partners with a view to increasing their participation in the facility which, in aggregate, is currently below contracted levels. Beyond that, active recruitment has begun to attract additional case volume to the center. Kirby suffers from a low level of awareness among the medical community. A marketing promotion entitled "Scheduling Solutions" will be introduced to local surgeons and their scheduling staff.

Palladium Dallas

Northstar has once again begun to manage this center at its standard fee, 5.5% of center collections. Similar in structure and terms to the joint venture at Palladium Houston, Palladium Dallas has formed MicroSurgery Institute Dallas with five initial physician partners. Management's objective is to attract an additional five to eight physician partners to join and share in the physician equity. Dr. Kramer expects that Northstar will acquire all ownership of Palladium Dallas based upon an independent valuation.

Expense management

A culture of protecting the company's cash is being implemented. The new board members are based in Texas and have competencies which should allow for marked reductions in the use of consultants. Expenses have been substantially reduced over the last six months at the center level. The new management team is determined that austerity will be followed at the corporate level, as well.

Litigation Update

Arbitration and Litigation Claims

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 September 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 AAA on January 22, 2010. The Palladium purchase agreement provides that the arbitration process be completed within six months of filing, although the parties have agreed to two extensions of that time period to allow for certain discussions to occur and to permit the arbitration panel to resolve certain preliminary motions.

Northstar'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. These claims were released upon the closing of the private placement.

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.

On September 30, 2010, a change in control of the Company occurred and all five prior members of the Company's Board resigned. At its October 19, 2010 meeting, the newly constituted Board of Directors of the Company determined that it would be proper for the Board to delegate to a Special Litigation Committee the responsibility for investigating and determining whether it is in the best interests of the Company to pursue the Arbitration. A Special Litigation Committee consisting of three independent board members was appointed to review the Arbitration. Since Dr. Kramer and entities related to him are parties to the Arbitration, he abstained from consideration of Special Litigation Committee. The Special Litigation Committee is authorized to exercise all lawful authority of the Board of Directors in determining what action, if any, the Company should take with respect to the Arbitration. The Special Litigation Committee was also granted the authority to retain, at the expense of the Company, special advisors as the Committee determines to be necessary to permit it to carry out its duties. On October 20, 2010, the Special Litigation Committee retained a corporate law firm headquartered in Texas to act as counsel to the Committee. With the assistance of counsel, the Special Litigation Committee has begun its investigation of the various claims by the Company against Dr. Kramer. The Company is unable to predict the results or the timing of the investigation.

Counter Claims

On May 5, 2010, Dr. Kramer issued a claim against the members of the then incumbent directors of Northstar 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. These claims were released by Dr. Kramer on completion of the private placement.

February 18, 2010 News Release

On February 18, 2010, the Company responded to a news release issued on February 17, 2010 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.

Management Changes

On October 27, 2010, the Company's BOD announced new leadership for the Company. Dr. Kramer and Ms. Donna Alexander rejoined Northstar's senior management team as Chief Executive Officer and Chief Operating Officer, respectively. The appointments took effect immediately. In connection with these appointments, the former CEO, Steve Linehan, left the Company.

ADDITIONAL INFORMATION

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

November 9, 2010