NORTHSTAR HEALTHCARE INC.

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

For the Three and Twelve Months Ended December 31, 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 twelve months ended December 31, 2010 is provided as of March 10, 2011. It is supplemental to, and should be read in conjunction with, the financial statements of the Company for the three and twelve months ended December 31, 2010. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Substantially all of the Company's operating cash flows are in U.S. dollars 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, 2010, 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, LP. (the "Kirby Partnership"). On November 1, 2010, the Company formed a joint venture with certain physician limited partners, Houston Microsurgery Institute, LLC ("MSIH" and together with the Palladium Partnership and the Kirby Partnership, the "Northstar Entities").

We have included a number of comparative operating statistics, such as cases and procedures performed at the facilities operated by the Northstar Entities for the three and twelve months ended December 31, 2010 compared with the corresponding prior year periods. Cases performed are key drivers of our revenues. This information is not intended to provide a comprehensive comparison of financial results, as net patient service revenues vary by patient, insurance carrier, and procedure.

CORPORATE OVERVIEW

NHC was incorporated under the *Business Corporations Act* (British Columbia) on March 16, 2007. NHC is a corporation formed to indirectly acquire and/or manage ambulatory surgery centers in the United States, focusing initially on Houston and other metropolitan areas in Texas. NHC used the net proceeds of an initial public offering to indirectly acquire a 70% partnership interest in the Palladium Partnership and a 60% partnership interest in the Kirby Partnership, which operate two ambulatory surgery centers (the "Northstar ASCs") located in Houston. In addition, NHC managed an ambulatory surgery center 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) 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"), along with the forgiveness of the related liabilities 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. Prior to these appointments, the former CEO, Steve Linehan, left the Company.

On November 1, 2010, MSIH was formed with certain physician partners. As of November 1, 2010 The Palladium Partnership ceased performing cases and entered into a lease agreement with MSIH whereas the entity utilizes the Palladium Partnership's facility and equipment in exchange for 25% interest in the equity of the MSIH Partnership. As a result, the Company held an 18.1% interest of MSIH equity at December 31, 2010.

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

Together, the Northstar ASCs have seven operating suites, three procedure or treatment rooms typically used by pain manad [(p)despecialists or for colo(e)-oscopies, 12 pre-operation beds, 17 post-operation or recovery beds and 90 surgeons who performed procedures in 2009. During 2010, 33 surgeons performed procedures.

The Nethstar ASCs do not offer the full range of services typically found in traditional hospitals, buinstead focu on certain clinical specialtie, incl uing thopaedic surgery, podiatric surgery, ear, nose and throat (ENT), gastroenterology, pain management, and general surgery.

In January 011, the Company increased its ownership percentage in the Palladium Partnership by acquiring an additional 18% effectively increasing our ownership percentage in MSIH to 22.6%. Aditionally, the Company announced the acquisition of The Palladium for Surgery–Dallas, Ltd. (PFSD) for $2.2 million.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2010
AND FOR THE THREE MONTHS ENDED DECEMBER 31, 2009
(In thousands of U.S. dollars except share and per share amounts)

	(unaudited) Three months ended December 31, 2010	2009
NET PATIENT SERVICE REVENUE	$ 2,241	$ 5,925
OPERATING EXPENSES:		
Salaries and benefits	754	947
Drugs and supplies	583	747
General and administrative	557	767
Bad debt expense	276	277
Amortization	200	283
Total operating expenses	2,370	3,021
(LOSS) INCOME FROM OPERATIONS	(129)	2,904
CORPORATE COSTS		
Salaries and benefits	393	267
General and administrative	1,119	782
Legal expenses	303	709
Amortization	8	9
Total corporate costs	1,823	1,767
OTHER EXPENSE (INCOME)		
Class B Unit distributions	(1)	42
Gain on change in fair value of Class B Units, net	-	(1,585)
(Gain) loss on foreign currency, net	(90)	6
Goodwill and intangible asset impairment	-	14,880
State franchise tax	10	51
Other (income) expense	(1)	245
Total other expense (income)	(82)	13,639
NET LOSS	(1,870)	(12,502)
NET (LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(40)	769
NET LOSS ATTRIBUTABLE TO NORTHSTAR HEALTHCARE	$ (1,830)	$ (13,271)
NET LOSS PER BASIC COMMON SHARE	$ (0.05)	$ (0.95)
NET LOSS PER FULLY DILUTED COMMON SHARE	$ (0.05)	$ (0.95)
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC)	33,344,210	13,900,852
WEIGHTED AVERAGE SHARES OUTSTANDING (FULLY DILUTED)	33,344,210	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 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 December 31, 2010 totaled $2.2 million, a decrease of $ 3.7 million or 62.2%, compared to $5.9 million for the same period in 2009. There were no collections during the fourth quarter of 2010 that were not recognized as revenues in prior periods. The decline in net patient service revenues was primarily due to a 26.3% decrease in case volume and a 14.6% decrease in the net patient service revenues per case for the three months ended December 31, 2010 versus the same period in 2009. The overall case volume decline was attributable to a 9.4% decrease at the Kirby Partnership and a 95.9% decrease at the Palladium Partnership. The decrease at the Palladium Partnership was due to a lack of cases by non-partner physicians. These decreases were partially mitigated by 53 cases performed by MSIH in the last two months of the year.

As noted in the Company's Annual Information Form dated March 10, 2011, 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 allegation 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, 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 December 31, 2010, after comparing historical payment data to the estimated net patient service revenues reported in 2009, management determined that actual collections as of December 31, 2010 approximated the reported net patient service reported for the period. An analysis of the revenues recorded for the three and twelve months ended December 31, 2010 and 2009 are as follows *(in thousands)*:

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009
From procedures performed during the period	$ 2,241	$ 3,562	$ 11,155	$ 18,425
From receipts that exceeded prior period revenues	-	648	939	3,526
From revenues previously not recognized	-	1,715	235	2,973
Amount recorded during the period	$ 2,241	$ 5,925	$ 12,329	$ 24,924

Salaries and benefits for the three months ended December 31, 2010 totaled $0.8 million, a decrease of $0.2 million from the three months ended December 31, 2009 primarily due to a reduction in the number of employees.

Drugs and medical supplies expense for the three months ended December 31, 2010 were $ 0.6 million, a decrease of $0.2 million or 22% compared to the three months ended December 31, 2009. The decrease was due to the overall decrease in case volume.

General and administrative expense for the three months ended December 31, 2010 totaled $0.6 million, a decrease of $0.2 million or 27.1% from the general and administrative expense for the three months ended December 31, 2009.

Bad debt expense for the three months ended December 31, 2010 was consistent with the three months ended December 31, 2009. A bad debt allowance of $0.3 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 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 is aggressively pursuing these receivables.

In total, Corporate costs for the three months ending December 31, 2010 were consistent with the three months ended December 31, 2009. General and administrative costs increased 43.1% from $0.8 million to $1.1 million primarily related to consulting costs to fill in various positions during the transformation of Management. The increase in Corporate general and administrative costs was offset by a $0.4 million decrease in legal expenses.

Although Corporate costs were consistent, they increased from 29.8% of revenues to 81.4% of revenues. This is due to the overall decrease in case volume during the resyndication of the Palladium facility and Corporate costs remaining consistent with compared to the prior year period. In the current year, we paid $0.2 million in severance to a former officer of the Company.

There were no changes in fair value related to the Company's Class B Units during the three months ended December 31, 2010, compared to a $1.6 million gain in the prior period. Upon the closing of the private placement on September 30, 2010, all Class B Units were terminated.

There were no goodwill or intangible asset impairments for the three months ended December 31, 2010, compared to $14.9 million in the prior year period. In 2009, management determined that the carrying value of the goodwill exceeded its estimated fair value and recorded a total of $13.7 million pre-tax impairment charge for the year ended December 31, 2009. As of December 31, 2010, management noted no further changes in the underlying business that would warrant a reassessment of the recoverability of the carrying amount of goodwill. Also in 2009, management determined that the carrying value of its Medicare licenses exceeded its estimated fair value and recorded a total of $1.2 million pre-tax impairment charge for the year ended December 31, 2009.

Net income or loss attributable to noncontrolling interests are based on ownership percentages in our ASCs that are owned by outside parties.

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

	(unaudited) Three months ended December 31, 2010	2009
NET PATIENT SERVICE REVENUE	100.0%	100.0%
OPERATING EXPENSES:		
Salaries and benefits	33.6%	16.0%
Drugs and supplies	26.0%	12.6%
General and administrative	24.9%	12.9%
Bad debt expense	12.3%	4.7%
Amortization	8.9%	4.8%
Total operating expenses	105.6%	51.0%
(LOSS) INCOME FROM OPERATIONS	-5.6%	49.0%
CORPORATE COSTS		
Salaries and benefits	17.6%	4.5%
General and administrative	49.9%	13.2%
Legal expenses	13.5%	12.0%
Amortization	0.4%	0.1%
Total corporate costs	81.4%	29.8%
OTHER EXPENSE (INCOME)		
Class B Unit distributions	0.0%	0.7%
Gain on change in fair value of Class B Units, net	-4.0%	-26.8%
(Gain) loss on foreign currency, net	0.0%	0.1%
Goodwill and intangible asset impairment	0.0%	251.1%
State franchise tax	0.4%	0.9%
Other (income) expense	0.0%	4.1%
Total other expense (income)	-3.6%	230.1%
NET LOSS	-83.4%	-210.9%
NET (LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-1.8%	13.0%
NET LOSS ATTRIBUTABLE TO NORTHSTAR HEALTHCARE	-81.6%	-223.9%

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 December 31, 2010, the Northstar ASCs had one in-network contract with one of its key private insurance payors.

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

Payors	Q4 2010 Net Patient Service Revenue by Payor Mix	Q4 2009 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay	82.2%	88.5%
Workers compensation	11.5%	8.1%
Medicare/Medicaid	6.3%	3.4%
TOTAL	100.0%	100.0%

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

Specialty	Q4 2010 Cases	Q4 2010 % Cases	Q4 2010 Procedures	Q4 2010 % Procedures	Q4 2009 Cases	Q4 2009 % Cases	Q4 2009 Procedures	Q4 2009 % Procedures
Pain Management	634	60.7%	2,622	72.4%	706	49.8%	3,267	64.2%
Orthopedics	252	24.1%	587	16.2%	449	31.7%	1,039	20.5%
Podiatry	12	1.1%	29	0.8%	27	1.9%	99	1.9%
Gastro-intestinal	-	0.0%	-	0.0%	50	3.5%	67	1.3%
General Surgery	81	7.8%	165	4.6%	70	4.9%	149	2.9%
ENT	66	6.3%	221	6.0%	116	8.2%	466	9.2%
TOTAL	1,045	100.0%	3,624	100.0%	1,418	100.0%	5,087	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 December 31, 2010 compared with the same period in the prior year. This information is not intended to provide a comprehensive comparison of financial results, as gross billings and net patient service revenues vary by patient, insurance carrier and procedure.

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

Total cases for the three months ended December 31, 2010 were 1,045, a decrease of 373 cases or 26.3 % from the 1,418 cases in the same period in 2009. Decreased case volumes were experienced in almost all of the specialties with orthopaedics and pain management specialty representing 72.1% of the overall decrease. As of November 1, 2010 the Palladium Partnership ceased performing cases and entered into a lease agreement with MSIH whereas the entity utilizes the Palladium Partnership's facility and equipment in exchange for 25% interest in the equity of MSIH. The decrease in case volume is primarily attrib4( )]T J yecrror21(o)-4(r)-2(e)]T J -0.0[er P a u-10(s) s c e8(c)-8()-5(e)-82-5

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of U.S. dollars except share and per share amounts)

	(unaudited)	
	2010	2009
NET PATIENT SERVICE REVENUE	$ 12,329	$ 24,924
OPERATING EXPENSES:		
Salaries and benefits	3,366	4,475
Drugs and supplies	2,365	3,206
General and administrative	2,821	3,315
Bad debt expense	775	1,091
Amortization	1,408	1,371
Total operating expenses	10,735	13,458
INCOME FROM OPERATIONS	1,594	11,466
CORPORATE COSTS		
Salaries and benefits	1,638	1,859
General and administrative	3,361	3,657
Legal expenses	3,420	3,546
Amortization	34	35
Total corporate costs	8,453	9,097
OTHER EXPENSE (INCOME)		
Class B Unit distributions	78	320
Gain on change in fair value of Class B Units, net	(171)	(1,585)
Gain on derecognition of Class B Units	(2,045)	-
Gain on foreign currency, net	(50)	(3,886)
Goodwill and intangible asset impairment	-	14,880
State franchise tax	76	94
Other (income) expense, net	(286)	234
Total other expense (income)	(2,398)	10,057
NET LOSS BEFORE INCOME TAXES	(4,461)	(7,688)
INCOME TAX EXPENSE (BENEFIT)	-	(685)
NET LOSS	(4,461)	(7,003)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	515	3,384
NET LOSS ATTRIBUTABLE TO NORTH AMERICAN HEALTH CARE	$ (4,976)	$ (10,387)
NET LOSS PER BASIC COMMON SHARE	$ (0.26)	$ (0.75)
NET LOSS PER FULLY DILUTED COMMON SHARE	$ (0.26)	$ (0.75)
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC)	18,801,644	13,900,852
WEIGHTED AVERAGE SHARES OUTSTANDING (FULLY DILUTED)	18,801,644	13,900,852

Net patient service revenues for the year ended December 31, 2010 totalled $12.3 million, compared to $24.9 million for the year ended December 31, 2009, a decrease of $12.6 million or 50.5%. Included in the $12.3 million is $1.2 million related to collections during the year ended December 31, 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 33% decrease in case volume accompanied by a 26.1% decrease in net patient service revenues per case, after adjusting for out of period collections, for the year ended December 31, 2010 from the same period in 2009. The overall case volume decline was attributable to a 9.0% decrease at the Kirby Partnership and a 78.3% 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. As of November 1, 2010 The Palladium Partnership ceased performing cases and entered into a lease agreement with MSIH whereby the entity utilizes the Palladium Partnership's facility and equipment in exchange for 25% interest in the equity of MSIH. The decrease in case volume is primarily attributable to the start up activities surrounding MSIH.

Salaries and benefits for the year ended December 31, 2010 totaled $3.4 million, a decrease of $ 1.1 million or 24.7% from the year ended December 31, 2009 primarily due to a reduction in the number of employees.

Drugs and medical supplies expense for the year ended December 31, 2010 totaled $2.4 million, a decrease of $0.8 million or 26.2% compared to $ 3.2 million from the year ended December 31, 2009. The decrease in case volume contributed to the overall decrease in drugs and medical supplies.

General and administrative expense for the year ended December 31, 2010 totaled $2.8 million, a decrease of $ 0.5 million from the general and administrative expense for the year ended December 31, 2009. The decrease was due to the overall decrease in case volume.

Bad debt expense for the year ended December 31, 2010 totaled $0.8 million, a decrease of $0.3 million or 29% from the year ended December 31, 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 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.

Amortization for the year ended December 31, 2010 was consistent with the prior year, however, amortization for some of our leasehold improvements was calculated using the estimated useful lives of 15 years and was changed to 10 years during the current reporting period. This resulted in additional amortization of $0.3 million for the year ended December 31, 2010.

Corporate costs for the year ended December 31, 2010 decreased by $0.6 million compared to the year ended December 31, 2009. The primary decreases were related to a decrease in the number of employees and a decrease in legal expenses. Corporate costs as a percentage of revenues were 36.5% in 2009 compared to 68.5% in 2010. This is due to the overall decrease in revenues primarily from the decrease in case volume at the Palladium facility and Corporate costs remaining relatively consistent in the current year compared to the prior year.

For the year ended December 31, 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 year ended December 31, 2010, the gain on foreign currency was nominal compared to a gain of $ 3.9 million from the year ended December 31, 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 YEARS ENDED DECEMBER 31, 2010 AND 2009

	(unaudited)	
	2010	2009
NET PATIENT SERVICE REVENUE	100.0%	100.0%
OPERATING EXPENSES:		
Salaries and benefits	27.3%	17.9%
Drugs and supplies	19.2%	12.9%
General and administrative	22.9%	13.3%
Bad debt expense	6.3%	4.4%
Amortization	11.4%	5.5%
Total operating expenses	87.1%	54.0%
INCOME FROM OPERATIONS	12.9%	46.0%
CORPORATE COSTS		
Salaries and benefits	13.2%	7.5%
General and administrative	27.3%	14.7%
Legal expenses	27.7%	14.2%
Amortization	0.3%	0.1%
Total corporate costs	68.5%	36.5%
OTHER EXPENSE (INCOME)		
Class B Unit distributions	0.6%	1.3%
Gain on change in fair value of Class B Units, net	-1.4%	-6.4%
Gain on derecognition of Class B Units	-16.6%	0.0%
(Gain) on foreign currency, net	-0.4%	-15.6%
Goodwill and intangible asset impairment	0.0%	59.7%
State franchise tax	0.6%	0.4%
Other (income) expense	-2.3%	0.9%
Total other expense (income)	-19.5%	40.3%
NET LOSS BEFORE INCOME TAXES	-36.1%	-30.8%
INCOME TAX EXPENSE (BENEFIT)	0.0%	-2.7%
NET LOSS	-36.1%	-28.1%
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4.2%	13.6%
NET LOSS ATTRIBUTABLE TO NORTHSTAR HEALTHCARE	-40.3%	-41.7%

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 December 31, 2010, the Northstar ASCs had one in-network contracts with one of its key private insurance payors.

NET PATIENT SERVICE REVENUES BY PAYORS OF THE NORTHSTAR ASCS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Payors	2010 Net Patient Service Revenue by Payor Mix	2009 Net Patient Service Revenue by Payor Mix
Private insurance and other private pay	82.5%	89.8%
Workers compensation	12.4%	8.1%
Medicare/Medicaid	5.1%	2.1%
TOTAL	100.0%	100.0%

CASE AND PROCEDURE MIX OF THE NORTHSTAR ASCS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Specialty	2010 Cases	2010 % Cases	2010 Procedures	2010 % Procedures	2009 Cases	2009 % Cases	2009 Procedures	2009 % Procedures
Pain Management	2,540	58.6%	10,704	70.3%	3,074	47.5%	14,942	61.8%
Orthopedics	1,171	27.0%	2,756	18.1%	1,871	28.9%	4,623	19.1%
Podiatry	21	0.5%	56	0.4%	247	3.7%	1,140	4.7%
Gastro-intestinal	5	0.1%	7	0.0%	420	6.5%	651	2.7%
General Surgery	331	7.7%	719	4.7%	393	6.1%	823	3.4%
ENT	265	6.1%	980	6.5%	471	7.3%	1,998	8.3%
TOTAL	4,333	100.0%	15,222	100.0%	6,476	100.0%	24,177	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 year ended December 31, 2010 compared with 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 year ended December 31, 2010 was 4,333, a decrease of 2,143 cases, or 33.1%, from the 6,476 total cases in the prior year. Decreases in case volume were experienced in each specialty, with orthopaedics and pain management comprising 57.6% 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. As of November 1, 2010 The Palladium Partnership ceased performing cases and entered into a lease agreement with MSIH where by the the entity utilizes the Palladium Partnership's facility and equipment in exchange for 25% interest in the equity of MSIH. The decrease in case volume is primarily attributable to the start up activities surrounding MSIH.

Procedure volume for the year ended December 31, 2010 decreased by 37.0% from 24,177 to 15,222. 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	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Net patient service revenue	$ 2,241	$ 2,559	$ 4,429	$ 3,100	$ 5,925	$ 6,843	$ 6,612	$ 5,544
Net income (loss)	$ (1,830)	$ 315	$ (2,110)	$ (1,351)	$ (13,271)	$ 2,868	$ 1,744	$ (1,728)
Net income (loss) per common share (basic)	$ (0.05)	$ 0.02	$ (0.15)	$ (0.10)	$ (0.95)	$ 0.21	$ 0.13	$ (0.12)
Net income (loss) per common share (fully diluted)	$ (0.05)	$ 0.02	$ (0.15)	$ (0.10)	$ (0.95)	$ 0.19	$ 0.12	$ (0.12)

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 Entities, 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 year ended December 31, 2010 reflected the effects of the significant decrease in case volume at the Palladium Partnership and a modest 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 Sue 25(be)4(r)2(l p5(o)1)12(t)7(hs)9(t)7()10(H2(S qu-2(U)4(i)7(tU)5

Repurchase Agreement. Northstar Subco has indemified 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 10, 2011.

RELATED PARTY TRANSACTIONS

The Company underwent a change of control as a result of the private placement of common shares on September 30, 2010. At the time of the change of control, 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. As of December 31, 2010, CHA and Venture's ownership interest was 52%.

The Palladium for Surgery—Dallas is located in Dallas, Texas and began operations in 20(05 P)C T g-8(n)-12(y(e)4(l 01)4(t)7(

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 accountable 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 in our first quarter 2011 financial s. 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 December 31, 2010, there are no Subco Class B Units. Under Canadian GAAP, the Subco Class B Units were 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 value, 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. There are 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)*, non-controlling interests will be presented as part of equity.

Revenue Recognition

Current accounting policy

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 unvested 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

Current accounting policy

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.

Expected IFRS accounting policy

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

Current accounting policy

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 over their estimated useful lives.

Expected IFRS accounting policy

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

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		

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

Disclosure Controls and Procedures

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.

The Company's management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim filings, were not effective due to the material weaknesses in internal controls over financial reporting discussed below.

Internal Controls over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining adequate internal control over financial reporting. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP focusing in particular on controls over information. Management is responsible for establishing and maintaining adequate internal controls over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute assurance that the objectives of the control system are met. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. 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.

The CEO and CFO have designed internal control over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance that the financial statements are free of material misstatement. The Company's management, under the direction of the CEO and CFO, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. Based on this assessment, the Company's CEO and CFO have concluded that, as of December 31, 2010, the Company's internal control over financial reporting contained the following material weaknesses:

Material Weakness

We did not maintain effective internal controls over accounts payable and related expenses. In particular, our controls with respect to ensuring that all accounts payable balances and related expenses have been recorded or accrued in the proper accounting period were not properly designed, nor were they operating effectively. As a result, accounts payable was understated by $124, expenses were understated by $113 and assets were understated by $11. An adjustment was made to our financial statements to correct this error during the course of our external audit. In addition, as discussed in more detail below, management re-performed the search for unrecorded liabilities as of December 31, 2010 and no further unrecorded items were detected. The adjustment represents 2% of the net loss for the year.

As a result of the material weakness described above, our management concluded that as of December 31, 2010, we did not maintain effective internal control over financial reporting based on the criteria established in Internal Control – Integrated Framework, issued the by Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Remediation of material weaknesses in internal control over financial reporting

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has been actively engaged in the implementation of remediating efforts to address the material weakness.

With respect to the material weakness related to the Accounts Payable cut-off, the follow remediation actions have been implemented by management:

- With regard to the period ended December 31, 2010, we have reviewed all vendor invoices greater than $1,000 received in January and February to ensure that they have been recorded in the proper period. These procedures did not identify any other items which needed to be recorded in addition to the adjustment described above.

- We have hired an employee who has extensive experience with accounts payable to perform a search for unrecorded liabilities and establish a proper cut-off on an on-going basis.

- We have enhanced existing controls to ensure that invoices, in addition to being stamped with proper account coding, are also stamped with the accounting period to which they will be posted. In addition, review and approval of these invoices will now include approval of the noted accounting period.

- We have enhanced the design of existing controls to ensure that all invoices are reviewed and approved by experienced accounting personnel at the Controller level or higher.

There have been no other material changes to the Company's internal control over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially to materially affect, the Company's internal control over financial reporting.

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 December 31, 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 10, 2011, for a list of the significant risk factors to which the Company is exposed.

OUTSTANDING SHARE DATA

At March 10, 2011, the Company had 33,344,210 common chares outstanding.

OUTLOOK

Surgical Centers

The past five months have been very active as management has been rebuilding the Company. The initial focus was upon the existing ASCs. Northstar has acquired Dr. Kramer's interests in Palladium-Houston and Palladium-Dallas and has entered into syndicated joint ventures with groups of surgeons at both locations.

In Houston, the joint venture is named the MicroSurgery Institute - Houston. Its surgeon base includes three pain management physicians, three head and neck surgeons, one orthopedic surgeon and four podiatric surgeons. Additional surgeon partners are being recruited. Northstar owns a 22.6% equity interest and manages the facility for 5.5% of cash collections.

On January 11, 2011, the Company announced the acquisition of Palladium for Surgery-Dallas including Dr. Kramer's 95% and Dr. James Vu's 5% ownership interests for a total purchase price of $2.2 million based upon the results of an independent third-party valuation. Like the Houston center, Palladium-Dallas entered into a joint venture with a group of surgeons to form the Microsurgery Institute of Dallas. Its partner physician base includes one pain management physician, one general surgeon, one plastic surgeon and three podiatric surgeons. Additional physician partners are being recruited. Northstar owns a 25% equity interest and manages the facility for 5.5% of cash collections.

Additional Service Lines

It is important that the Company diversify its services beyond outpatient surgery. Therefore, management is actively seeking to acquire and grow a number of healthcare delivery businesses in Texas. Potential acquisitions are being evaluated for fit, scalability, risk and impact upon the Company's cash flow. Common to all of these targets are physician partnership joint ventures to align physician interests with Company interests.

Pursuant to this plan, the Company announces the formation of Gulf Coast Toxicology, LLC in partnership with Pioneer Laboratories, LLC. Northstar has a 20% ownership interest in Gulf Coast Toxicology, LLC, a Dallas-based drug testing laboratory. The laboratory will screen and quantify narcotics and other drugs in urine samples. This is a rapidly growing area of medical practice as governmental agencies are now requiring pain clinics and other medical practices to routinely perform drug testing. Gulf Coast Toxicology will partner with a number of physicians in Houston who will supply the urine samples to be tested in the laboratory of Gulf Coast Toxicology. If successful in Houston, Northstar expects to expand this business to other cities.

Litigation Update

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 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 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.

In response, Dr. Kramer 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 indicated in his filings with the AAA was seeking damages of up to $1.0 million. These claims were released upon the closing of the private placement.

On May 5, 2010, Dr. Kramer issued a claim against the members of the Northstar BOD 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 claimed that he 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.

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 was 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.

On December 15, 2010, the Special Litigation Committee of its Board of Directors determined that it would not be in the best interest the Company or its shareholders to continue to pursue the Company's claims against Dr. Donald Kramer and related entities. The Committee determined that Northstar would be unlikely to succeed if it pursued the arbitration to a final conclusion. Dr. Kramer concurrently agreed to abandon his arbitration claims against the Company.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the consolidated interim financial statements for the three and twelve months ended December 31, 2010 and the Company's annual information form, is available on SEDAR at www.sedar.com

March 10, 2011