Interim Consolidated Financial Statements of

NORTHSTAR HEALTHCARE

From the Inception of Operations on May 17, 2007 to September 30, 2007 and the three months ended September 30, 2007

(Unaudited)

Northstar Healthcare Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 2007

Unaudited Interim Consolidated Financial Statements

Interim Consolidated Balance Sheet

(in thousands of U.S. dollars)

(Unaudited)

Cash and cash equivalents	$	4,563
Accounts receivable		12,751
Inventory		551
Prepaid expenses and other current assets		747
		18,612
Long term		
Property and equipment (Note 4)		5,703
Foreign currency exchange contracts (Note 7)		6,358
Intangible assets (Note 5)		7,485
Goodwill (Note 2)		141,146
Other assets		51
		160,743
	$	179,355
Accounts payable	$	669
Dividends payable		1,277
Income tax payable		248
Accrued liabilities and other current liabilities (Note 6)		2,663
		4,857
Future income tax liability (Note 11)		1,249
Other liabilities, non-controlling interest (Note 9)		

The accompanying notes are an integral part of the interim consolidated financial statements.

Interim Consolidated Statement of Operations and Deficit

(in thousands of U.S. dollars, except per share amounts)
(unaudited)

....	$ 12,508	$ 19,326
Salaries and benefits	1,544	2,293
Drugs and supplies	852	1,355
General and administrative	1,558	2,151
Depreciation and amortization	434	636
	4,388	6,435
....		
Distributions, non-controlling interest	433	655
Withholding taxes	346	512
Change in fair value, other liabilities, non-controlling interest (Note 9)	7,333	10,382
Unrealized gain on foreign currency		

The accompanying notes are an integral part of the interim consolidated financial statements.

Interim Consolidated Statement of Cash Flows
(in thousands of U.S. dollars)
(unaudited)

Net income	$ 322	$ 1,691
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	434	636
Future income tax expense	839	1,249
Unrealized gain on foreign currency exchange contracts	(4,014)	(6,358)
Non-controlling interests	2,809	4,534
Change in fair value of other liabilities, non-controlling interest	7,333	10,382
Changes in operating assets and liabilities	365	(1,075)
Cash Flows Provided By Operating Activities		
Business acquisition, net of cash acquired of $999	-	(138,719)
Purchase of property and equipment	(97)	(157)
Cash Flows Used In Investing Activities	( )	( )
Initial public offering and over-allotment proceeds of common shares, net of expenses	-	139,718
Distributions to non-controlling interest	(2,895)	(2,895)
Dividends Paid	(4,443)	(4,443)
Cash Flows Provided By Financing Activities		
	653	4,563
, beginning of period	3,910	–
, end of period	$	$

The accompanying notes are an integral part of the interim consolidated financial statements.

Notes to Interim Consolidated Financial Statements
(in thousands of U.S. dollars, unless otherwise indicated)
For the period from May 17, 2007 to September 30, 2007
(unaudited)

References in these financial statements to "we" and "our" are to Northstar Healthcare Inc. (the "Company" or "NHC") and its subsidiaries as applicable. The Company was incorporated under the *Business Corporations Act* (British Columbia) on March 16, 2007 commenced operations following the completion of its initial public offering on May 17, 2007. NHC is a corporation formed to indirectly acquire and/or manage ambulatory surgery centres in the United States, focusing initially on Houston and other metropolitan areas in Texas. NHC used the net proceeds of an initial public offering, including the over-allotment, to indirectly acquire a 70% partnership interest in The Palladium for Surgery–Houston, LLP (the "Palladium Partnership") and a 60% partnership interest in Medical Ambulatory Surgical Suites, LLP (the "Kirby Partnership" and together with the Palladium Partnership, the "Northstar Partnerships"), which operate two ambulatory surgery centres (the "Northstar ASCs") located in Houston. In addition, NHC manages an ambulatory surgery centre in Dallas and three pain management clinics in Houston.

The consolidated financial statements of the Company are prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Northstar ASCs and management contracts are located in Texas, therefore all amounts are in U.S. dollars, unless otherwise noted.

(a) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. We consolidate when we can exercise control over operations and policies of an entity. When we consolidate, we combine the accounts of our subsidiaries with our accounts, and eliminate intercompany balances and transactions.

(b) Use of Accounting Estimates

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

(c) Foreign Exchange Exposure

We pay all cash dividends to common shareholders in Canadian dollars, but the Company's revenues and cash flows are generated in the United States. Therefore we are subject to foreign exchange exposure. We use foreign currency forward contracts to manage the foreign currency fluctuations related to the payment of cash dividends to common shareholders. However, our ability to extend or renegotiate these contracts as necessary depends on our future operating performance and cash flows, which are subject to economic conditions, interest rate levels and financial, competitive, business and other factors, many of which are beyond our control.

(d) Financial Statements

The consolidated financial statements contained in this report are as at September 30, 2007 and for the period from May 17, 2007 to September 30, 2007. All financial information in this report is presented in U.S. dollars, unless otherwise noted. The financial statements contained in this report are unaudited and, in the opinion of management, contain all adjustments necessary for a fair presentation of the financial position, operating results and cash flows for the period presented. These adjustments are normal and recurring in nature.

(e) Cash and Cash Equivalents

(i) Goodwill

Goodwill represents the difference between the price we paid for our interests in Northstar Partnerships, using the purchase method of accounting, and the fair value of the net tangible assets and identifiable intangible assets we acquired. We test goodwill for impairment at least annually, utilizing several testing methods.

When evaluating whether goodwill is impaired, we compare the fair value of the reporting units to its carrying amount, including goodwill. If the carrying amount exceeds the fair value, then the amount of the impairment loss must be measured. The amount of an impairment loss is calculated by comparing the implied fair value of goodwill to its carrying value.

(j) Intangible Assets

Intangible assets include the value of certain Physician Partner Contracts and are amortized on a straight line basis over their estimated life of 19 years.

(k) Asset Impairment

We monitor events and changes in circumstances which may require us to review the carrying value of our property and equipment and intangible assets. We assess impairment of our property and equipment and intangible assets based on estimated undiscounted future operating cash flows.

We measure impairment, if any, by comparing the carrying value of an asset to its fair value. We recognize an impairment loss if the carrying value exceeds the fair value.

The evaluation of asset impairment requires us to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment, and actual results may differ from assumed and estimated amounts.

(l) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Based on historical collections and current market conditions during the three months ended September 30, 2007, management has adjusted net patient service revenue to better reflect the net realizable value of the Company's accounts receivable.

Going forward, management will continue to monitor historical collections and market conditions to report the effects of a change in estimates. Revenue is recognized upon the performance of the patient service.

Revenue from management fees represents fees charged to the managed centers, based on a percent of collections, for managing the center's business operations. The revenue from these fees was $321 for the period from May 17, 2007 to September 30, 2007, and was included in net patient service revenue.

(m) Third-Party Contractual Adjustments

Retroactively calculated third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on final settlements and collections.

(n) Income Taxes

We use the asset and liability method to account for income taxes. Under the asset and liability method future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax basis.

We measure future income tax assets and liabilities using income tax rates that we expect to apply to taxable income in the years when we expect those differences to be recovered or settled. We recognize the effect of a change in tax rates on future income tax assets and liabilities in income in the period that the rate change is effective.

We establish valuation allowances when necessary to reduce future income tax assets to the amount that is more likely than not to be realized.

(o) Net Income Per Common Share

We calculate net income per Common Share by dividing net income available for common shareholders by the weighted average number of common shares outstanding during the period.

(p) Financial Instruments

Our financial instruments consist of:

- Cash and cash equivalents,
- Accounts receivable,
- Accounts payable,
- Accrued wages, salaries and bonuses,
- Accrued operating expenses,
- Risk management contracts - foreign currency,
- Dividends payable,
- Other liabilities, non-controlling interest.

We describe our estimate of the fair values of these instruments, our exposure to credit risk, and our accounting policies for risk management contracts in the following sections.

Fair Value

We estimate that the fair values of cash and cash equivalents, accounts receivable, accounts payable, accrued salaries, wages and bonuses, and accrued operating expenses approximate their carrying values due to the short maturities or other characteristics of these financial instruments.

We measure the fair value of risk management contracts and other liabilities, non-controlling interest at the end of each quarter.

Credit Risk

Our financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable, and risk management contracts. We are exposed to credit risk, as follows:

- Cash and cash equivalents – we maintain our cash in bank deposit accounts that, at times, may exceed U.S. and Canadian federally insured limits.
- Accounts receivable – we are exposed to credit risk from insurers and patients.

(q) Accounting Changes

i. Effective January 1, 2008, the Company will be required to adopt two new CICA standards, Section 3862, Financial Instruments Disclosure and Section 3863, Financial Instruments Presentation, which will replace Section 3861 Financial Instruments Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentations requirements. The Company is currently evaluating the implications of these standards.

ii. In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual and interim periods related to fiscal years beginning on or after October, 1, 2007. This section establishes standards for disclosing information about a Company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managed capital. This new standard is not expected to have a material effect on the Company's consolidated financial statements.

iii. The CICA issued a new section 3031, "Inventories", in March 2007, which is based on International Accounting Standard 2. The new section replaced the existing section 3030, Inventories. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also allows the reversal of any write-downs previously recognized. The new accounting standard and any consequential amendments will be effective for the Corporation beginning January 1, 2008. The Company is currently evaluating the implications of the new standard.

iv. In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The precise timing of convergence will depend on an Accounting Standards Board progress review to be undertaken by early 2008. The impact of this transition on the Company's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments.

(in thousands of U.S. dollars, unless otherwise indicated)

NHC received $139,718 in net proceeds from its initial pulic offering (including the Over-Allotment Option), after deducting fees payable by NHC to the underwriters and the estimated expenses of the offering which totalled $13,858.

NHC used such net proceeds to acquire all of the Class A Units and indirectly acquire all of the Preferred Units and Common Units of Northstar Healthcare Acquisitions, L.L.C. (“Northstar Acquisitions”). All of the Class B Units of Northstar Acquisitions are held by Healthcare Ventures, Ltd. (“Ventures”).

On Closing, Northstar Acquisitions used a portion of the proceeds from the sale of its equity interests to acquire all of the Preferred Units and Class A Units of Northstar Healthcare Subco, L.L.C. (“Northstar Subco”).

Northstar Subco used a portion of these proceeds to indirectly acquire a 70% partnership interest, including the general partnership interest, in the Palladium Partnership and a 60% partnership interest, including the general partnership interest, in the Kirby Partnership.

Results from operations from these acquisitions have been included in the results for the period from the date of acquisition.

The acquisition has been accounted for using the purchase method. The purchase price of $139,718 has been preliminarily allocated to the assets and liabilities of the Northstar Partnerships as follows:

Net assets acquired at fair value	
Current assets less current liabilities	$ 10,550
Property and equipment	6,031
Other long-term assets	15
Other intangibles	7,636
Other liabilities – non-controlling interest	(17,964)
Non-controlling interests	(7,696)
	(1,428)
Goodwill	141,146
	$ 139,718

In the third quarter, the Company completed its fair value assessment of the current assets less current liabilities, resulting in an adjustment to current assets less current liabilities, non-controlling interests and goodwill. The remaining purchase price allocations are preliminary and are subject to changes once the final valuation of the assets acquired and liabilities assume is completed..

The Northstar ASC’s include net patient service revenues reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The amounts actually collected by the Company from third-party payors, including private insurers, are variable, even for identical procedures. An additional factor in the determination of net patient service revenues is the Company’s payor mix, as between private health insurance plans, workers’ compensation, directly from patients and from government payor plans. Management reviews and evaluates historical payment data, payor mix and current economic conditions on a periodic basis and adjusts the estimated collections as a percentage of gross billings (which are used to determine net patient service revenue) as required in subsequent periods based on final settlements and collections.

(in thousands of U.S. dollars, unless otherwise indicated)

In the third quarter of 2007, the Company introduced new reporting and trending software that has provided management a significantly improved method of predicting net patient service revenue. This new software identified fluctuations in historical collection percentages relative to current market conditions, causing management to revise downwards its estimated collection percentages used to calculate net patient service revenues. As a result of this change and actual collections at the Kirby Partnership, the Company reduced its net patient service revenues by $0.8 million in the three months ended September 30, 2007 as a prospective change in accordance with Canadian GAAP in respect of the forty-five day period ending June 30, 2007.

Item	Cost	Accumulated Depreciation	Net Book Value
Telephone equipment	$ 26	$ 3	$ 23
Computer hardware	153	20	133
Computer software	112	14	98
Furniture and office equipment	193	16	177
Medical equipment	3,044	299	2,745
Leasehold improvements	2,660	133	2,527
Totals	$ 6,188	$ 485	$ 5,703

The depreciation expense charged to operations was $334 and $485 for the three months ended September 30, 2007 and the period from May 17, 2007 to September 30, 2007, respectively.

Intangible Assets represent the fair value of the assets that we obtained when we acquired our interests in the Northstar Partnerships. Intangible assets primarily include the value of certain Physician Partner Contracts and are amortized over their estimated useful life of 19 years. Amortization for the period was $100 and $151 for the three months ended September 30, 2007 and the period from May 17, 2007 to September 30, 2007, respectively.

Physicians who represent the non-controlling interests in the Northstar Partnerships, routinely provide independent professional services directly to patients utilizing the Northstar ASCs (See Note 10).

Healthcare Ventures ("Ventures") holds all of the Acquisitions Class B Units. Each Acquisitions Class B Unit entitles Ventures to receive monthly distributions of cash from Northstar Acquisitions equal to a specified percentage of Northstar Acquisitions' gross management fee revenues (including management fees earned for services earned under the Management and Cost Sharing Agreement and for services provided to other clients of Northstar Acquisitions), payable after all distributions have been made to the holders of Acquisitions Preferred Units and Acquisitions Class A Units. (See Note 9).

(in thousands of U.S. dollars, unless otherwise indicated)

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

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

Ventures has also provided cash collateral of $5.0 million as required to support the foreign currency arrangement. Ventures has received a fee equal to 1.0% of the amount of cash collateral provided at closing of the initial public offering on May 17, 2007. The cash collateral shall remain the property of Ventures and all income earned thereon shall be for the benefit of Ventures.

Included in accrued liabilities and other current liabilities is $0.5 million related to Subco's monthly distribution to Ventures and revolving credit facility fees.

The Company 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 arises from the payment of dividends on its common shares.

As of September 30, 2007, the Company is committed to deliver approximately $1.3 million monthly in exchange for approximately C$1.4 million at stipulated exchange rates as follows:

Contract Dates	US$ to be delivered	Cdn$ to be received	Cdn$ per US$
October 2007 – June 2012	71,496	77,845	1.0888

Changes in the fair value during each reporting period are recorded as unrealized gains (losses) in the consolidated statement of operations.

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

On March 16, 2007 the Company was incorporated with an authorized share structure providing for an unlimited number of common shares.

On May 17, 2007, the Company issued 12,087,698 common shares for net proceeds of $120,866 as part of an IPO. On June 5, 2007, the over-allotment option was exercised resulting in the issuance of 1,813,154 additional common shares for net proceeds of $18,852.

(in thousands of U.S. dollars, unless otherwise indicated)

In connection with the Company's initial public offering, Ventures has the right exercisable at any time after the second anniversary of closing of the initial public offering (but not more frequently than once in any six-month period) to request in writing that Northstar Healthcare Subco, L.L.C. ("Subco") enter into good faith negotiations with Ventures to purchase for cancellation all or any portion of the Subco Class B Units held by Ventures. The price paid for such Subco Class B Units will be equal to their fair market value plus the fair market value of a corresponding number of Northstar Healthcare Acquisitions, L.L.C Class B Units. Northstar Healthcare Acquisitions, L.L.C. ("Acquisitions") will purchase for cancellation all outstanding Acquisitions Class B Units for a nominal amount on the date that all outstanding Subco Class B Units have been purchased for cancellation by Subco.

The $7,333 change in the fair value of other liabilities, non-controlling interest represents the change in fair value of the Class B Units of Northstar Healthcare Subco, LLC held by Healthcare Ventures, Ltd. ("Ventures") during the three months ended September 30, 2007 as a result of the increase in the Company's common share price during such period. This item is recorded as an expense of the Company under Canadian GAAP as a result of the negotiation right held by Ventures that is described above.

Non-controlling interests at September 30, 2007 represents a 30% interest in the Palladium Partnership and a 40% interest in the Kirby Partnership, which are owned by the physician limited partners who practice at the Northstar ASCs. Non-controlling interests also includes the Acquisitions Class B Units held by Ventures. Non-controlling interests for the period from May 17, 2007 to September 30, 2007 was $4,381 and $153, for the PLPs' (physician limited partners) and Ventures, respectively.

(a) Reconciliation of Reported Income Tax Expense to Expected Income Tax Expense

The following table shows the reconciliation between income tax expense reported in our Consolidated Statements of Income and the income tax expense that would have resulted from applying the United States federal income tax rate of 35% to pre-tax income.

Income before income taxes and non-controlling interests	$ 3,969	$ 7,607
U.S. federal income tax rate	35%	35%
Expected U.S. federal income tax expense	1,390	2,662
Permanent differences:		
Intercompany note interest expense	(877)	(1,315)
Change in fair value of non-controlling interest	2,566	3,634
Unrealized gain on foreign currency	(1,405)	(2,225)
Non-controlling interest	(983)	(1,587)
Other	147	213
	(552)	(1,280)
Total income taxes	$ 838	$ 1,382

(in thousands of U.S. dollars, unless otherwise indicated)

We have reduced our taxable income and, therefore, our calculation of income tax expense by interest expense on intercompany notes that bear interest at 11.1% and are eliminated in consolidation. The interest expense on these notes was $3,078 for the months ended September 30, 2007 and $4,617 for the period from May 17, 2007 to September 30, 2007.

If United States tax authorities were to implement changes to the tax laws or their interpretation, and these changes did not allow us to reduce our taxable income and our calculation of income tax expense by all or a portion of certain interest expense, we may be required to pay higher income taxes and our cash distributions could be adversely affected.

(b) Future Income Tax Assets and Liabilities

The table below sets forth the tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities that are reported in our Consolidated Balance Sheets.

Future income tax liabilities:		
Goodwill and intangibles	$	(1,249)
Net future income tax liability	$	(1,249)

We lease property and certain equipment under non-cancellable operating lease arrangements, which expire at various dates through 2014. Certain leases of real property provide options to extend the lease terms.

We recorded rent expense under operating leases of $172 and $254 for the three months ended September 30, 2007 and for the period from May 17, 2007 to September 30, 2007, respectively.

We summarize our future minimum payments under operating leases in the following table:

2007 (remaining three months)	$	193
2008		829
2009		854
2010		867
2011		882
Thereafter		1,631
Total	$	5,256

The Company has adopted a 401(k) savings plan for its employees. The plan covers substantially all employees. Under the terms of the plan, employees may contribute up to a maximum of 15%, subject to Internal Revenue Code limitations ("IRC"), of their salaries to the plan plus any catch-up contributions permitted under the IRC. The Company may match employee contributions up to 4% of the amount contributed by the employee. The Company's matching contribution was $13 and $20 for the three months ended September 30, 2007 and for the period from May 17, 2007 to September 30, 2007, respectively.

We operate in one reportable business segment and one geographic location and we operate only in the United States.