# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 2017**

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the transition period from [ ] to [ ]**

Commission file number **001-37349**

# NOBILIS HEALTH CORP.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **British Columbia** | **98-1188172** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **11700 Katy Freeway, Suite 300, Houston, Texas** | **77079** |
| (Address of principal executive offices) | (Zip Code) |

Registrant’s telephone number, including area code: **(713) 355-8614**

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange On Which Registered |
|---|---|
| **Common shares, no par value** | **NYSE MKT** |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

Yes [ ] No [X]

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the last 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-K (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [X] |
| Non-accelerated filer [ ] | Smaller reporting company [ ] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]   No [X]

The aggregate market value of Common Shares held by non-affiliates of the Registrant as of June 30, 2017 , based on the closing price of $1.90 per share on the NYSE MKT on such date, was approximately $147,829,527 .

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

78,183,802 common shares as of March 12, 2018 .

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for its Annual Meeting of Shareholders to be held in 2018 are incorporated by reference into Part III of this Annual Report.

**EXPLANATORY NOTE**

The registrant was previously a “smaller reporting company” under applicable Securities and Exchange Commission rules and regulations and determined pursuant to such rules and regulations that it no longer qualified as a smaller reporting company as of its June 30, 2015 determination date, at which time the registrant met the definition of an “accelerated filer.” In accordance with Item 10(f)(2)(i) of Regulation S-K, the registrant is permitted to use the scaled disclosure requirements applicable to smaller reporting companies in this Annual Report on Form 10-K. The registrant transitioned to the disclosure requirements applicable to emerging growth companies filing as accelerated filers beginning with the registrant’s Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2016.

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## FORWARD-LOOKING STATEMENTS

This Annual Report and the documents that are incorporated herein by reference contain certain forward-looking statements within the meaning of Canadian and United States securities laws, including the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements include all statements that do not relate solely to historical or current facts and may be identified by the use of words including, but not limited to the following; “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan,” “continue,” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. These forward-looking statements are based on the Company's current plans and expectations and are subject to a number of risks, uncertainties and other factors which could significantly affect current plans and expectations and our future financial condition and results. These factors, which could cause actual results, performance and achievements to differ materially from those anticipated, include, but are not limited to the following:

- our ability to successfully maintain effective internal controls over financial reporting;
- our ability to implement our business strategy, manage the growth in our business, and integrate acquired businesses;
- the risk of litigation and investigations, and liability claims for damages and other expenses not covered by insurance;
- the risk that payments from third-party payors, including government healthcare programs, may decrease or not increase as costs increase;
- adverse developments affecting the medical practices of our physician limited partners;
- our ability to maintain favorable relations with our physician limited partners;
- our ability to grow revenues by increasing case and procedure volume while maintaining profitability;
- failure to timely or accurately bill for services;
- our ability to compete for physician partners, patients and strategic relationships;
- the risk of changes in patient volume and patient mix;
- the unknown residual affects of hurricane Harvey;
- the potential impact of the new tax laws and regulations;
- the risk that laws and regulations that regulate payments for medical services made by government healthcare programs could cause our revenues to decrease;
- the risk that contracts are canceled or not renewed or that we are not able to enter into additional contracts under terms that are acceptable to us; and
- the risk of potential decreases in our reimbursement rates.

The foregoing are significant factors we think could cause our actual results to differ materially from expected results. However, there could be additional factors besides those listed herein that also could affect us in an adverse manner.

You should read this Annual Report completely and with the understanding that actual future results may materially differ from expectations. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof, when evaluating the information presented in this Annual Report or our other disclosures because current plans, anticipated actions, and future financial conditions and results may differ from those expressed in any forward-looking statements made by or on behalf of the Company.

We have not undertaken any obligation to publicly update or revise any forward-looking statements. All of our forward-looking statements speak only as of the date of the document in which they are made or, if a date is specified, as of such date. Subject to mandatory requirements of applicable law, we disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in expectations or any changes in events, conditions, circumstances or information on which the forward-looking statement is based. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing factors and the risk factors set forth in Part I, Item 1A. - Risk Factors in this Annual Report.

## PART I

### Item 1. Business

### General Overview

We were incorporated on March 16, 2007 under the name "Northstar Healthcare Inc." pursuant to the provisions of the British Columbia Business Corporations Act (BCBCA). On December 5, 2014, Northstar Healthcare Inc. changed its name to Nobilis Health Corp. ("Nobilis" or the "Company"). Prior to December 1, 2014, our business was solely the ownership, operation and management of outpatient surgery centers and specialty surgical hospitals (the "Medical Segment"). On December 1, 2014, we completed the acquisition of Athas Health, LLC ("Athas"). This acquisition added marketing services as a stand-alone business line, which is now a separate reportable business segment (the "Marketing Segment"). In addition to providing services to third parties, our unique direct-to-patient marketing and proprietary technology serves our own healthcare facilities.

Our portfolio of specialty surgical hospitals, ambulatory surgical centers (ASCs), and multi-specialty clinics ( the "Nobilis Facilities") is complemented by our Marketing Segment, which allows us to operate those facilities in many instances with few, if any, physician partners. Our differentiated business strategy provides value to patients, physicians and payors, and enables us to capitalize on recent trends in the healthcare industry, particularly with regard to increased consumerism in the healthcare space. As a result, we believe we are positioned for continued growth.

As of December 31, 2017 , there are 33 locations across Texas and Arizona, including specialty surgical hospitals ( the "Nobilis Hospitals"), ASCs ( the "Nobilis ASCs") and multi-specialty clinics. Additionally, Nobilis partnered with another 34 facilities across the country, and marketed 9 independent brands. We provide care across a variety of specialties in our facilities including, pain management, spine surgery, orthopedic surgery, bariatric surgery, plastic surgery, ear nose and throat (ENT), podiatric surgery, vein and vascular, and other general surgery.

Many of our surgical patients require additional complementary healthcare services and Nobilis has spent the last two years developing a full suite of ancillary services that we offer patients treated in our facilities. To date, Nobilis is able to provide a variety of in-house ancillary services, such as Anesthesia, Surgical Assist, and Intraoperative Neuromonitoring ("IOM"), (collectively, "Nobilis Ancillary Service Lines"). The addition of the ancillary services has helped us successfully expand our continuum of care, increase facility efficiency, improve our coordination of the various services they require, enhance the quality of our patients' clinical outcomes as well as their overall experience.

On October 28, 2016 and March 8, 2017, we purchased Arizona Vein and Vascular Center, LLC and its four affiliated surgery centers operating as Arizona Center for Minimally Invasive Surgery, LLC, (collectively, "AZ Vein") and Hamilton Vein Center ("HVC") brand and associated assets, respectively. These acquisitions expanded our specialty mix to include the treatment of venous diseases with little modification to our existing infrastructure of specialty surgical hospitals and ASCs. Our facilities will be able to offer a range of treatments, both surgical and non-surgical, for those patients suffering from venous diseases, which today affect more than 30 million Americans.

In addition to our vein and vascular business acquisitions, on September 13, 2017, we purchased DeRosa Medical, P.C. ("DeRosa"). DeRosa is a primary care practice that specializes in health and wellness, medically supervised weight loss, women's health, and chronic health condition management. The practice operates three multi-specialty clinics within the Phoenix, Arizona metropolitan area, specifically in Scottsdale, Chandler, and Glendale. The acquisition of DeRosa allows the Company to expand its continuum of care by providing additional healthcare services at the primary care level.

On November 15, 2017, the Company purchased 50.1% ownership interests in Elite Sinus Spine and Ortho LLC, Elite Center for Minimally Invasive Surgery, LLC, Houston Metro Ortho and Spine Surgery Center, LLC and Elite Hospital Management, LLC (collectively the "Management Companies" or collectively, "Elite") that manage three ASCs and one specialty surgical hospital in Houston, TX. Elite provides healthcare management services to these facilities, which generate 100% in-network revenue to the Nobilis system. This acquisition represents a strategic opportunity to enhance Nobilis' in-network revenue and adds 76 physician partners to our existing network of surgeons in the Houston market. We will also have the opportunity to leverage best practices from both companies, generate operational efficiencies, further improve our case conversion through a substantial increase in referral-based business and provide the Company additional resources to strengthen Nobilis' footprint within the Houston market.

Our growth strategy focuses on:

- Marketing Expertise Drives Organic Growth: support organic growth in facilities that we own and operate through large scale multi-media marketing and sales efforts; and
- Acquisitions Opportunities: Expand the Company's continuum of care capabilities via addition of key service lines and diverse revenue streams, paying focus to the In-network market.

- Operational Efficiency: Leverage acquisitions and company growth to drive cost reductions and achieve greater economies of scale.

**Recent Developments**

- *Elite Acquisition* - In November 2017, we closed and acquired Elite's hospital and three ASCs operating as Elite Surgical Affiliates. For more information on this acquisition, see Note 3 - Acquisitions of Part II, Item 8. - Financial Statements and Supplementary Data.
- *BBVA Financing Amendment No.2 (the "Amendment")* - On November 15, 2017, Northstar Healthcare Acquisitions, L.L.C. (the “Borrower”), a Delaware limited liability company and wholly owned subsidiary of Nobilis Health Corp. (the “Company”) and Northstar Healthcare Holdings, Inc. a Delaware corporation entered into the Amendment with the purpose of financing the Elite acquisition, and thereby increased the aggregate principal amount by $50,000,000 (“Term Loan B”). The maturity date of Term Loan B is November 15, 2022 with payments due quarterly.
- *The Note* - in addition to the Amendment noted above, the Company issued a sellers note in the principal amount of $3.5 million bearing interest at the simple rate of 6.75% per annum and payable in three installments over a two year period. For more information on this note, see Note 3 - Acquisitions of Part II, Item 8. - Financial Statements and Supplementary Data.
- *Corporate Governance* - Effective as of November 16, 2017, Harry Fleming was appointed to the Board of Directors and was subsequently appointed to serve as Chairman of the Board following Dr. Donald L. Kramer resignation as Chairman and retirement from the Board of Directors.

**Government Regulation**

We are subject to numerous federal, state and local laws, rules and regulations. Government regulation affects our business by controlling our growth, requiring licensure and certification for our facilities and the physicians and other healthcare personnel who provide services in our facilities and regulating the use of our properties.

*Licensure and Accreditation*

Our healthcare facilities are subject to professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements imposed by Medicare, Medicaid, state licensing authorities, voluntary accrediting organizations and third-party private payors. Receipt and renewal of such licenses, certifications and accreditations are often based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative compliance actions by us that could be burdensome and expensive.

The applicable standards may change in the future. There can be no assurance that we will be able to maintain all necessary licenses or certifications in good standing or that they will not be required to incur substantial costs in doing so. The failure to maintain all necessary licenses, certifications and accreditations in good standing, or the expenditure of substantial funds to maintain them, could have an adverse effect on our business.

*Anti-Kickback Statute*

The United States Medicare/Medicaid Fraud and Abuse Anti-kickback Statute (the “Anti-Kickback Statute”) prohibits “knowingly or willfully” paying money or providing remuneration of any sort in exchange for federally-funded referrals. Because the physician partners that have ownership interests in certain of the Nobilis Facilities (the “Physician Limited Partners”) are in a position to generate referrals to the Nobilis Facilities, distributions of profits to these Physician Limited Partners could come under scrutiny under the Anti-Kickback Statute. While the Department of Health and Human Services has issued regulations containing “safe harbors” to the Anti-Kickback Statute, including those specifically applicable to ASCs, our operations and arrangements do not comply with all of the requirements. As we do not have the benefit of the safe harbors, we are not immune from government review or prosecution. However, we believe that our operations are structured to substantially comply with applicable anti-kickback laws. To the extent safe harbor protection is not available, the agreements governing the structure and operations of our facilities include provisions to mitigate against alleged kickbacks or other inducements.

The State of Texas and the State of Arizona each maintain its own version of the Anti-Kickback Statute (the “Non-solicitation Laws”). In Texas, the relevant law is called the Texas Patient Solicitation Act (TPSA). The TPSA prohibits payment of remuneration for referrals and violations can result in state criminal and civil penalties. Because the TPSA is based on the federal Anti-Kickback Statute, the risks described above also arise under this state law except that the TPSA arguably is not limited to claims for treatment of federal program beneficiaries. In Arizona, A.R.S §13-3713 makes it unlawful for a person to knowingly offer, deliver, receive, or accept any rebate, refund, commission, preference or other consideration in exchange for a patient, client or customer referral to any individual, pharmacy, laboratory, clinic or health care institution providing medical or health-related services or items under A.R.S. § 11-291 et seq., providing for indigent care, or A.R.S. § 36-2901 et seq., or providing for the Arizona Health Care Cost Containment System, other than specifically provided under those sections. A violator of the relevant Arizona laws is guilty of: a class 3 felony for payment of $1,000 or more; a class 4 felony for payment of more than $100 but less than $1,000; or a class 6 felony for payment of $100 or less.

The Non-solicitation Laws parallel in many respects the federal Anti-Kickback Statute, but they apply more broadly because they are not limited only to providers participating in federal and state health care programs. The Texas statute specifically provides that it permits any payment, business arrangement or payment practice that is permitted under the federal Anti-Kickback Statute and regulations promulgated under that law, although failure to fall within a safe harbor does not mean that the arrangement necessarily violates Texas law. Arizona takes the same approach.

Some of the various arrangements that we enter into with providers may not fit into a safe harbor to the federal Anti-Kickback Statute and thus may not be exempt from scrutiny under the Non-solicitation Laws. Although an arrangement that fits a federal safe harbor may also be exempt from the prohibitions of the Non-solicitation Laws, the burden is on the medical provider to prove that the questioned arrangement fits one of the federal safe harbors. Additionally, even if that burden is met, the provider must still comply with the law's requirements to disclose to the patient the financial relationship involved. A failure by us to comply with the Anti-Kickback Statute, TPSA or Arizona laws could have an adverse effect on our business.

*Corporate Practice of Medicine*

Texas law generally does not permit business corporations to practice medicine, exercise control over the professional decisions of physicians who practice medicine or engage in various business practices, such as employing physicians. A widely used statutory exception in Texas is for the employment of physicians by non-profit health corporations that are certified by the Texas Medical Board under Section 162.001(b) of the Texas Occupations Code. We contract some professional services through this structure. Similarly, Texas and Arizona prohibit fee-splitting arrangements with physicians where professional fees of physicians are shared with non-physician persons or non-physician owned entities. The physicians who perform procedures at our facilities or who perform contracted physician services are individually licensed to practice medicine. In most instances within our Medical Segment, the physicians are not affiliated with us other than through the physicians' ownership in the limited partnerships and limited liability companies that own certain of our facilities and through the service agreements we have with some physicians. The laws in many states regarding the corporate practice of medicine have been subjected to limited judicial and regulatory interpretation, and interpretation and enforcement of these laws vary significantly from state to state. Therefore, we cannot provide assurances that our activities, if challenged, will be found to be in compliance with these laws.

*False Claims Legislation*

Under the United States Criminal False Claims Act, individuals or entities that knowingly file false or fraudulent claims that are payable by the Medicare or Medicaid programs are subject to both criminal and civil liability. While we have a compliance program and policies to create a corporate culture of compliance with these laws, failure to comply could result in monetary penalties (up to three times the amount of damages), fines and/or imprisonment, which could have an adverse effect on our business, results of operations and financial condition.

*HIPAA*

We are subject to the Health Insurance Portability and Accountability Act (HIPAA), which mandates industry standards for the exchange of protected health information, including electronic health information. While we believe that we have implemented privacy and security systems to bring us into material compliance with HIPAA, we cannot ensure that the business associates to whom we provide information will comply with HIPAA standards. If we, for whatever reasons, fail to comply with the standards, or any state statute that governs an individual's right to privacy that are not pre-empted by HIPAA, we could be subject to criminal penalties and civil sanctions, which could have an adverse effect on our business.

*Patient Protection and Affordable Care Act*

We may be affected by the Patient Protection and Affordable Care Act (PPACA), which began taking effect in 2010. The impact on us remains uncertain. By mandating that residents obtain minimum levels of health insurance coverage, the PPACA has expanded the overall number of insured patients. However, it remains to be seen whether the cost born by employers of providing insurance coverage will result in a shift away from the types of policies that have historically provided the coverage that we have relied upon in the past. Further, as discussed above, the impact that value-based purchasing initiatives could have on our revenues remains unclear. We continue to review the potential impact of the PPACA's provisions on its business as the out-of-network reimbursement under the policies issued by the state exchange might be substantially lower than those by the employer-sponsored polices.

*Antitrust*

Federal and state antitrust laws restrict the ability of competitors, including physicians and other providers, to act in concert in restraint of trade, to fix prices for services, to allocate territories, to tie the purchase of one product to the purchase of another product or to attempt to monopolize a market for services.

Notwithstanding our efforts to fully comply with all antitrust laws, a significant amount of ambiguity exists with respect to the application of these laws to healthcare activities. Thus, no assurance can be provided that an enforcement action or judicial proceeding will not be brought against us or that we will not be liable for substantial penalties, fines and legal expenses.

*Environmental Laws and Regulations*

Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, treatment, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive and flammable materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial, and legal risks associated with the obligations imposed by applicable environment laws and regulations. Such risks may (i) result in damage to individuals, property, or the environment; (ii) interrupt operations and/or increase their cost; (iii) result in legal liability, damages, injunctions, or fines; (iv) result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and (v) may not be covered by insurance. There can be no assurance that we will not encounter such risks in the future, and such risks may result in material adverse consequences to our operations or financial results.

*Consumer Protection Laws and Regulations*

Our business, in particular our Marketing Segment, is affected by consumer protection laws and regulations. Government regulations may directly or indirectly affect or attempt to affect the scope, content and manner of presentation of health services, advertising and marketing services we provide. Such regulation may seek, among other things, to limit our ability to advertise for certain products and services. In addition, there has been a tendency on the part of businesses to resort to the judicial system to challenge advertising practices, which could cause our clients affected by such actions to reduce their spending on our services. Any limitation or judicial action that effects our ability to meet our clients' needs or reduces client spending on our services could affect our business.

Most states regulate advertising related to healthcare. Most of these laws and regulations address the obligations of a licensed professional to accurately describe his or her credentials, the efficacy of treatments offered by the professional and the risks to a potential patient of such treatments. In some states it is unclear what rules apply to advertisers of healthcare services who are not licensed professionals. If we determine that regulatory requirements in a given state prevent one or more of our Marketing Segment programs, we may be required to cease contracting with physicians and healthcare facilities in that state and to cease marketing services to citizens of that state. However, if advertising requirements on the whole become overly burdensome, we may elect to terminate operations or particular marketing services programs entirely or avoid introducing particular Marketing Segment programs. In some states we have modified the compensation structure of our Marketing Segment programs to reduce uncertainty regarding our compliance with state laws.

The Federal Trade Commission enforces Section 5 of the Federal Trade Commission Act (FTC), which prohibits deceptive or unfair practices in or affecting commerce, and Section 12 of the FTC Act, which prohibits the dissemination of any false advertisement to induce the purchase of any food, drug, device, or service. An ad is deceptive under Section 5 of the FTC Act if it has a statement – or omits information – that: 1) is likely to mislead consumers acting reasonably under the circumstances; and 2) is "material" – that is, important to a consumer's decision to buy or use the product. An ad or business practice is unfair if: 1) it causes or is likely to cause substantial consumer injury that a consumer could not reasonably avoid; and 2) the injury is not outweighed by any benefit the practice provides to consumers or competition. These consumer protection laws apply equally to marketers across all mediums, whether delivered on a desktop computer, a mobile device, or more traditional media such as television, radio, or print. If a disclosure is needed to prevent an online ad claim from being deceptive or unfair, it must be clear and conspicuous. Under the FTC guidance, this means advertisers should ensure that the disclosure is clear and conspicuous on all devices and platforms that consumers may use to view the ad. FTC guidance also explains that if an advertisement without a disclosure would be deceptive or unfair, or would otherwise violate a rule, and the disclosure cannot be made clearly and conspicuously on a device or platform, then that device or platform should not be used. It may be difficult or impossible for us to know precisely how clearly a disclosure appears on a particular platform which may cause our disclosures to be inadequate. This may subject us to significant penalties, including statutory damages.

Under the FTC Act, ads, promotional brochures, informational tapes, seminars and other forms of marketing of surgical services to consumers should not have express or implied claims that are false or unsubstantiated, or that omit material information. In particular, claims that convey an inaccurate impression about the safety, efficacy, success or other benefits of any form of surgery would raise concerns about deception. Claims about success rates, long-term stability, or predictability of outcome must be substantiated by competent and reliable scientific evidence. The standard of review of these disclosures is viewed from the perspective of the “reasonable person”. However, this standard can be difficult to apply when promoting new and innovative surgical procedures and techniques such as the ones we promote. A failure on our part to fully describe risk factors or to make assertions that are alleged to be lacking in scientific support could subject us to litigation or regulatory enforcement actions and associated reputational harm.

Our business could be adversely affected by newly-adopted or amended laws, rules, regulations and orders relating to telemarketing and increased enforcement of such laws, rules, regulations or orders by governmental agencies or by private litigants. One example of recent regulatory changes that may affect our business is the Telephone Consumer Protection Act (TCPA). Regulations adopted by the Federal Communications Commission under the TCPA that became effective October 16, 2013 require the prior express written consent of the called party before a caller can initiate telemarketing calls (i) to wireless numbers (including text messaging) using an automatic telephone dialing system or an artificial or prerecorded voice; or (ii) to residential lines using an artificial or prerecorded voice. Failure to comply with the TCPA can result in significant penalties, including statutory damages. Our efforts to comply with these regulations may negatively affect conversion rates of leads.

*Other Regulations*

In addition to the regulatory initiatives described above, healthcare facilities, including the Nobilis Facilities, are subject to a wide variety of federal, state, and local environmental and occupational health and safety laws and regulations that may affect their operations, facilities, and properties. Violations of these laws could subject us to civil penalties and fines for not investigating and remedying any contamination by hazardous substances, as well as other liability from third parties.

*Federal Stark Law*

The Federal Stark Law, also known as the physician self-referral law, prohibits a physician from referring Medicare patients to an entity (including specialty surgical hospitals) for the furnishing of “designated health services,” if the physician or a member of the physician’s immediate family has a direct or indirect “financial relationship” with the entity, unless a specific exception applies, and further prohibits the entity from billing for any services that arise out of such prohibited referrals. Certain of these provisions are applicable to the referral of Medicaid patients as well. Designated health services include the following services when they may be paid for by the Medicare program: inpatient and outpatient hospital services; clinical laboratory services; radiology and certain other imaging services; physical therapy services, occupational therapy services, and outpatient speech-language pathology services; durable medical equipment and supplies; outpatient prescription drugs; home health services; radiation services and supplies; parental and eternal nutrients, equipment and supplies; and prosthetics, orthotics, and prosthetic devices and supplies, all of which are services that our affiliated physicians may order. The prohibition applies regardless of the rationale for the financial relationship and the reason for ordering the service. Therefore, intent to commit an illegal act is not required in order for the government to prove that a physician has violated the Stark Law. Like the Anti-Kickback Statute, the Stark Law contains a number of statutory and regulatory exceptions that protect certain types of transactions and business arrangements from penalty. When the Stark Law applies to a referral, compliance with all elements of an applicable Stark Law exception is necessary in order to avoid violation of the statute.

The penalties for violating the Stark Law include the denial of payment for services ordered in violation of the statute, mandatory refunds of any sums paid for such services, civil penalties of up to $15,000 for each violation, assessments up to three times the amount of each claim for Medicare reimbursement knowingly made for services ordered in violation of the statute, and possible exclusion from future participation in governmental healthcare programs. A physician or an entity that engages in a scheme to circumvent the Stark Law’s prohibitions may be fined up to $100,000 for each applicable arrangement or scheme. Knowing submission of a claim in violation of the Stark Law may also result in a False Claims Act allegation.

Some states have enacted statutes and regulations similar to the Stark Law, but which may be applicable to the referral of patients regardless of their payor source and which may apply to different types of services. These state laws may contain statutory and regulatory exceptions that are different from those of the federal law and that may vary from state to state.

**Competition**

Within the Texas and Arizona markets, we currently compete with traditional hospitals, specialty surgical hospitals and other ASCs to attract both physicians and patients. Specialty surgical hospitals generally have an advantage over ASCs with respect to the negotiation of insurance contracts and competition for physicians’ inpatient and outpatient practices. Specialty surgical hospitals also offer a much broader and specialized range of medical services (enabling them to service a broader patient population) and generally have longer operating histories and greater financial resources, and are better known in the general community.

The competition among ASCs and specialty surgical hospitals for physicians and patients has intensified in recent years. As a result, some specialty surgical hospitals have been acquiring physician practices and employing the physicians to work for the specialty surgical hospitals. These specialty surgical hospitals incentivize physicians to utilize the specialty surgical hospitals' facilities. Further, some traditional hospitals have recently formed joint ventures with physicians whereby the hospital manages, but the hospital and physicians jointly own, an ASC.

In addition, there are several large, publicly traded companies, divisions or subsidiaries of large publicly traded companies, and several private companies that develop and acquire ASCs and specialty surgical hospitals. These companies may compete with us in the acquisition of additional ASCs and specialty surgical hospitals. For instance, publicly-traded Envision Healthcare (NYSE: EVHC), owns 263 ASCs and employs over 26,000 physician partners and APP's across 46 states. Other leaders in our market include Tenet Healthcare (NYSE: THC), Surgery Partners (NYSE: SGRY) and Hospital Corporation of America (NYSE: HCA).

Further, many physician groups develop ASCs without a corporate partner, using consultants who typically perform corporate services for a fee and who may take a small equity interest in the ongoing operations of such ASCs. See "Risk Factors – Risks Relating to Our Business – We Face Significant Competition From Other Healthcare Providers."

Based on our innovative approach, we believe we are well positioned in our current markets as a surgical services and marketing services platform of choice for patients and physicians. Our focus on providing care, complemented by our unique Marketing Segment offerings, is a key differentiating factor of our strategy. We believe this approach drives physician engagement, better coordination of care with patients, continuous clinical and administrative improvement and enhanced efficiency.

**Seasonality**

The surgical segment of the healthcare industry tends to be impacted by seasonality due to the nature of most benefit plans resetting on a calendar year basis. As patients utilize and reduce their remaining deductible throughout the year, ASCs and surgical specialty surgical hospitals typically see an increase in volume throughout the year with the biggest impact coming in the fourth quarter. Historically, approximately 35-40% of our annual revenues have been recognized in the fourth quarter.

**Facility Operations**

See Part I. Item 2. Properties for details on the Company's facilities.

**Employees**

As of March 12, 2018 , we had approximately 900 employees, of which approximately 700 are full time.

**Intellectual Property**

We own intellectual property including service marks, trade secrets and other proprietary information. Depending on the jurisdiction, service marks generally are valid as long as they are used and/or registered.

**Emerging Growth Company**

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012. As such, we are eligible for exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and reduced disclosure obligations regarding executive compensation. We will remain an emerging growth company until the earliest of (1) the last day of the fiscal year following the fifth anniversary of the effectiveness of our first registration statement pursuant to the Securities Act of 1933, as amended, which was June 4, 2015 (2) the last day of the fiscal year in which we have total annual gross revenue of at least $1.0 billion, (3) the date on which we are deemed to be a large accelerated filer, which means the market value of common shares that is held by non-affiliates exceeds $700.0 million as of the prior June 30th, and (4) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period. We have elected not to opt out of the extended transition period for complying with any new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

**Available Information**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at www.sec.gov. You may also read and copy any document we file at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on their public reference room. Our SEC filings are also available to the public on our website at www.nobilishealth.com. Please note that information contained on our website, whether currently posted or posted in the future, is not a part of this Annual Report or the documents incorporated by reference in this Annual Report. This Annual Report also contains summaries of the terms of certain agreements that we have entered into that are filed as exhibits to this Annual Report or other reports that we have filed with the SEC. The descriptions contained in this Annual Report of those agreements do not purport to be complete and are subject to, and qualified in their entirety by reference to, the definitive agreements. You may request a copy of the agreements described herein at no cost by writing or telephoning us at the following address: Nobilis Health Corp., Attention: General Counsel, 11700 Katy Freeway, Suite 300, Houston, Texas 77079, phone number (713) 355-8614.

**Item 1A. Risk Factors**

Our business operations are subject to a number of risks and uncertainties, including, but not limited to those set forth below:

**Our business is not highly diversified.**

Until 2014, our only business was the ownership and operation of three ASCs located in Texas. During 2014, we started operations at a facility in Scottsdale, Arizona and at two facilities in Houston, Texas. During 2015, we initiated operations at three new facilities in Texas and Arizona and initiated our neuromonitoring and first assist ancillary service lines. These developments have provided some degree of diversification to our business. However, investors will not have the benefit of further diversification of operations or risk until such time, if ever, that we acquire or develop additional facilities, manage additional facilities, or undertake other related business opportunities. As a result of our geographic concentration in Texas and Arizona, we are particularly susceptible to downturns in the local and regional economies, regional inclement weather, or changes in local or state regulation.

As of December 2014, we became a provider of marketing services to our own affiliated entities as well as to third parties which added some degree of diversification to our business. Five facilities represent approximately 96% of our contracted marketing revenue for the year-ended December 31, 2016, and four facilities represent approximately 84% of our contracted marketing accounts receivable as of December 31, 2016. Three facilities represent approximately 95% of our contracted marketing revenue for the year-ended December 31, 2017 , and three facilities represent approximately 87% of our contracted marketing accounts receivable as of December 31, 2017 . As a result, our Marketing Segment is subject to a certain degree of revenue concentration. Because of this concentration among these facilities, if an event were to adversely affect one of these facilities, it may have a material impact on our business.

In addition, approximately 89.6% of the revenues from cases performed at our facilities in 2017 were concentrated among four major private insurance companies and workers' compensation payors. The loss of any one of these payors could have an adverse effect on our business, results of operations and financial condition.

**We face significant competition from other healthcare providers.**

We compete with other facilities and specialty surgical hospitals for patients, physicians, nurses and technical staff. Some of our competitors have longstanding and well-established relationships with physicians and third-party payors in the community. Some of our competitors are also significantly larger than us, may have access to greater marketing, financial and other resources and may be better known in the general community. The competition among facilities and specialty surgical hospitals for physicians and patients has intensified in recent years. Some specialty surgical hospitals have imposed restrictions on the credentials of their medical staff (called conflict of interest credentialing) where these physicians hold an ownership in a competing facility. We face competition from other facilities and from specialty surgical hospitals that perform similar outpatient services, both inside and outside of our primary service areas. Further, some traditional hospitals have recently begun forming joint ventures with physicians whereby the hospital manages and the hospital and physicians jointly own the facility. Patients may travel to other facilities for a variety of reasons. These reasons include physician referrals or the need for services that we do not offer.

Some of these competing facilities offer a broader array of outpatient surgery services than those available at our facilities. In addition, some of our direct competitors are owned by non-profit or governmental entities, which may be supported by endowments and charitable contributions or by public or governmental support. These specialty surgical hospitals can make capital expenditures without paying sales tax, may hold the property without paying property taxes and may pay for the equipment out of earnings not burdened by income taxes.

This competitive advantage may affect our ability to compete effectively with these non-profit or governmental entities. There are several large, publicly traded companies, divisions or subsidiaries of large publicly held companies, and several private companies that develop and acquire multi-specialty facilities, and these companies compete with us in the acquisition of additional facilities. Further, many physician groups develop facilities without a corporate partner, using consultants who typically perform these services for a fee and who may take a small equity interest in the ongoing operations of a facility. We can give no assurances that we can compete effectively in these areas. If we are unable to compete effectively to recruit new physicians, attract patients, enter into arrangements with managed care payors or acquire new facilities, our ability to implement our growth strategies successfully could be impaired. This may have an adverse effect on our business, results of operations and financial condition.

**The industry trend toward value-based purchasing may negatively impact our revenues.**

We believe that value-based purchasing initiatives of both governmental and private payors tying financial incentives to quality and efficiency of care will increasingly affect the results of operations of our specialty surgical hospitals and other health care facilities and may negatively impact our revenues if we are unable to meet expected quality standards. The PPACA contains a number of provisions intended to promote value-based purchasing in federal health care programs. Medicare now requires providers to report certain quality measures in order to receive full reimbursement increases for inpatient and outpatient procedures that were previously awarded automatically. In addition, specialty surgical hospitals that meet or exceed certain quality performance standards will receive increased reimbursement payments, while specialty surgical hospitals that have "excess readmissions" for specified conditions will receive reduced reimbursement.

There is a trend among private payors toward value-based purchasing of health care services, as well. Many large commercial payors require specialty surgical hospitals to report quality data, and several of these payors will not reimburse specialty surgical hospitals for certain preventable adverse events. We expect value-based purchasing programs, including programs that condition reimbursement on patient outcome measures, to become more common, to involve a higher percentage of reimbursement amounts and to spread to reimbursement for ASCs and other ancillary services. Although we are unable to predict how this trend will affect our future results of operations, it could negatively impact our revenues if we are unable to meet quality standards established by both governmental and private payors.

**We are subject to fluctuations in revenues and payor mix.**

We depend on payments from third-party payors, including private insurers, managed care organizations and government healthcare programs. We are dependent on private and, to a lesser extent, governmental third-party sources of payment for the procedures performed in our facilities. Our competitive position has been, and will continue to be, affected by reimbursement and co-payment initiatives undertaken by third-party payors, including insurance companies, and, to a lesser extent, employers, and Medicare and Medicaid.

As an increasing percentage of patients become subject to healthcare coverage arrangements with managed care payors, our success may depend in part on our ability to negotiate favorable contracts on behalf of our facilities with managed care organizations, employer groups and other private third-party payors. There can be no assurances that we will be able to enter into these arrangements on satisfactory terms in the future. Also, to the extent that our facilities have managed care contracts currently in place, there can be no assurance that such contracts will be renewed or the rates of reimbursement held at current levels.

Managed care plans often set their reimbursement rates based on Medicare and Medicaid rates and consequently, although only a small portion of our revenues are from Medicare and Medicaid, the rates established by these payors may influence our revenues from private payors.

As with most government reimbursement programs, the Medicare and Medicaid programs are subject to statutory and regulatory changes, possible retroactive and prospective rate adjustments, administrative rulings, freezes and funding reductions, all of which may adversely affect our revenues and results of operations. The Centers for Medicare and Medicaid Services ("CMS") introduced substantial changes to reimbursement and coverage in early 2007. While the ASC final rule expanded the types of procedures eligible for payment in the ASC setting and excluded from eligibility only those procedures that pose a significant safety risk to patients or are expected to require active medical monitoring at midnight when furnished in an ASC, the ASC final rule also provided a 4-year transition to the fully implemented revised ASC payment rates. Beginning with the November 2007 OPPS/ASC final rule with comment period (CMS-1392-FC), the annual update OPPS/ASC final rule with comment period provides the ASC payment rates and lists the surgical procedures and services that qualify for separate payment under the revised ASC payment system. As a result, reimbursement levels decreased but coverage expanded. These rates remain subject to change, thus our operating margins may continue to be under pressure as a result of changes in payor mix and growth in operating expenses in excess of increases in payments by third-party payors. In addition, as a result of competitive pressures, our ability to maintain operating margins through price increases to privately insured patients is limited. This could have a material adverse effect on our business, operating results and financial condition.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and is recognized upon performance of the patient service. In determining net patient service revenue, management periodically reviews and evaluates historical payment data, payor mix and current economic conditions and adjusts, as required, the estimated collections as a percentage of gross billings in subsequent periods based on final settlements and collections.

Management continues to monitor historical collections and market conditions to manage and report the effects of a change in estimates. While we believe that the current reporting and trending software provides us with an accurate estimate of net patient service revenues, any changes in collections or market conditions that we fail to accurately estimate or predict could have a material adverse effect on our operating results and financial condition.

**Our performance is greatly dependent on decisions that Third Party Payors make regarding their out-of-network benefits and alternatively, our ability to negotiate profitable contracts with Third Party Payors.**

One of the complexities of our business is navigating the increasingly hostile environment for entities that are not participants in the health insurance companies' ("Third Party Payors") provider networks (also referred to as an out-of-network provider or facility). Third Party Payors negotiate discounted fees with providers and facilities in return for access to the patient populations which those Third Party Payors cover. The providers and facilities that contractually agree to these rates become part of the Third Party Payor's "network". We are currently out-of-network as to most Third Party Payors.

There are several risks associated with not participating in Third Party Payor networks. First, not all Third Party Payors offer coverage to their patients for services rendered by non-participants in that Third Party Payor's network. Further, it is typically the case that patients with so-called "out-of-network benefits" will be obliged to pay higher co-pays, higher deductibles, and a larger percentage of co-insurance payments. In addition, because the out-of-network coverage often mandates payment at a "usual and customary rate", the determination of the amounts payable by the Third Party Payor can fluctuate. Healthcare providers and facilities that choose not to participate in a Third Party Payor's network often face longer times for their claims to be processed and paid. Further, many Third Party Payors aggressively audit claims from out-of-network providers and facilities and continuously change their benefit policies in various ways that restrict the ability of beneficiaries to access out-of-network benefits, and to restrict out-of-network providers from treating their beneficiaries.

Consequently, it may become necessary for us to change their out-of-network strategy and join Third Party Payor networks. This may require us to negotiate and maintain numerous contracts with various Third Party Payors. In either case, our performance is greatly dependent upon decisions that Third Party Payors make regarding their out-of-network benefits and alternatively, our ability to negotiate profitable contracts with Third Party Payors. If it becomes necessary for us to become in-network facilities, there is no guarantee that we will be able to successfully negotiate these contracts. Further, we may experience difficulty in establishing and maintaining relationships with health maintenance organizations, preferred provider organizations, and other Third Party Payors. Out-of-network reimbursement rates are typically higher than in-network reimbursement rates, so our revenue would likely decline if we move to an in-network provider strategy and fail to increase our volume of business sufficiently to offset reduced in-network reimbursement rates. These factors could adversely affect our revenues and our business.

**We depend on our physicians and other key personnel.**

Our success depends, in part, on our ability to attract and retain quality physicians. There can be no assurance that we can continue to attract high quality physicians, facility staff and technical staff to our facilities. In addition, notwithstanding contractual commitments given by certain of our physicians to maintain certain specified volume levels at our facilities, there can be no assurances that our current physicians will continue to practice at our facilities at their current levels, if at all. An inability to attract and retain physicians may adversely affect our business, results of operations and financial condition.

Our success also depends on the efforts and abilities of our management, as well as our ability to attract additional qualified personnel to manage operations and future growth. Although we have entered into employment agreements with certain of our key employees, we cannot be certain that any of these employees will not voluntarily terminate their employment. Also, at this time, we do not maintain any key employee life insurance policies on any management personnel or Physician Limited Partners, but may do so in the future. The loss of a member of management, other key employee, Physician Limited Partner or other physician using our facilities could have an adverse effect on our business, operating results and financial condition.

**We may be unable to implement our acquisition strategy.**

Our efforts to execute our acquisition strategy may be affected by our ability to identify suitable candidates and negotiate and close acquisition transactions. We may encounter numerous business risks in acquiring additional facilities, and may have difficulty operating and integrating these facilities. Further, the companies or assets we acquire in the future may not ultimately produce returns that justify our investment. If we are not able to execute our acquisition strategy, our ability to increase revenues and earnings through external growth will be impaired.

In addition, we will need capital to acquire other centers, integrate and expand our operations. We may finance future acquisition and development projects through debt or equity financings and may use our common shares for all or a portion of the consideration to be paid in future acquisitions. To the extent that we undertake these financings or use our common shares as consideration, our shareholders may experience future ownership dilution. Our loan agreement subjects us to covenants that affect the conduct of business. In the event that our common shares do not maintain a sufficient valuation, or potential acquisition candidates are unwilling to accept our common shares as all or part of the consideration, we may be required to use more of our cash resources, if available, or to rely solely on additional financing arrangements to pursue our acquisition and development strategy. However, we may not have sufficient capital resources or be able to obtain financing on terms acceptable to us for our acquisition and development strategy, which would limit our growth. Without sufficient capital resources to implement this strategy, our future growth could be limited and operations impaired. There can be no assurance that additional financing will be available to fund this growth strategy or that, if available, the financing will be on terms that are acceptable to us.

**We do not have control of the day-to-day medical affairs and certain other affairs of the Nobilis Facilities.**

Although we indirectly manage the day-to-day business affairs of all Nobilis Facilities under a management agreement, we only have the right to attend and observe at meetings of each Nobilis Facility's Medical Board. As such, we do not have the ability to direct day-to-day medical affairs of the Nobilis Facilities, but rather only its business and commercial affairs, all as set forth in the respective governance documents of each Nobilis Facility. In addition, certain actions are subject to a veto by a written vote of a majority in interest of the Physician Limited Partners, including the approval of the annual budget and annual plan (subject to the right of the Nobilis party to continue to operate the Nobilis Facilities in a manner that preserves its business and goodwill, business relationships and physical plant).

**The non-solicitation, non-competition, transfer and other covenants of the Physician Limited Partners and others may not be enforceable.**

Under the Kirby Partnership Agreement (subject to certain limited exceptions) during the time that a Physician Limited Partner is a Partner and for two years thereafter, the Physician Limited Partner may not directly or indirectly own, control, finance or participate in the profits or revenues of any business that engages in competition with Kirby anywhere within a 20-mile radius of the facility; provided, however, that a Physician Limited Partner may perform surgery at another facility or otherwise practice medicine in a private practice that uses such competing facility.

In addition, we are party to several contracts containing non-competition provisions purporting to bind physicians to whom we provide marketing services.

Because non-competition provisions are enforced not as a matter of contractual law but as a matter of equity, a court asked to enforce a non-competition provision with a Physician Limited Partner or other physicians will have broad discretion over enforcement, non-enforcement or the fashioning of relief different from that contractually agreed to by the parties. While no single physician's non-competition provision is material to our business, a court decision to not enforce a physician's non-competition covenant could set a precedent with respect to physicians bound by the same or similar provisions, such that, in the aggregate, there results a detrimental impact on our revenues.

**We may not be able to effectively manage information security risks.**

If we are unable to effectively manage information security risks, or the security measures protecting our information technology systems are breached, we could suffer a loss of confidential data, which may subject us to liability, or a disruption of our operations. We rely on our information systems to securely transmit, store, and manage confidential data. A failure in or breach of our operational or information security systems as a result of cyber-attacks or information security breaches could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs or lead to liability under privacy and security laws (including the Health Insurance Portability and Accountability Act), litigation, governmental inquiries, fines and financial losses. As a result, cyber security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us, and we must continue to focus on any security risks in connection with the transition and integration of information systems as we pursue our growth and acquisition strategy. Although we believe that we have appropriate information security procedures and other safeguards in place, there can be no assurance that we will not be subject to a cyber-attack. We continue to prioritize the security of our information technology systems and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from cyber-attack, damage or unauthorized access. As cyber threats continue to evolve due to the proliferation of new technologies and the increased activities by perpetrators of such attacks, we may be required to expend additional resources to continue to enhance our information security measures or to investigate and remediate any information security vulnerabilities or breaches.

**We may become involved in litigation which could harm the value of our business.**

From time to time, we are involved in lawsuits, claims, audits and investigations, including those arising out of services provided, personal injury claims, professional liability claims, billing and marketing practices, employment disputes and contractual claims. We may become subject to future lawsuits, claims, audits and investigations that could result in substantial costs and divert our attention and resources and adversely affect our business condition. In addition, since our current growth strategy includes acquisitions, among other things, we may become exposed to legal claims for the activities of an acquired business prior to the acquisition. These lawsuits, claims, audits or investigations, regardless of their merit or outcome, may also adversely affect our reputation and ability to expand our business.

In addition, from time to time we have received, and expect to continue to receive, correspondence from former employees terminated by us who threaten to bring claims against us alleging that we have violated one or more labor and employment regulations. In certain instances former employees have brought claims against us and we expect that we will encounter similar actions against us in the future. An adverse outcome in any such litigation could require us to pay contractual damages, compensatory damages, punitive damages, attorneys' fees and costs.

**We may be subject to liability claims for damages and other expenses not covered by insurance that could reduce our earnings and cash flows.**

Our operations may subject us, as well as our officers and directors to whom we owe certain defense and indemnity obligations, to litigation and liability for damages. Our business, profitability and growth prospects could suffer if we face negative publicity or we pay damages or defense costs in connection with a claim that is outside the scope or limits of coverage of any applicable insurance coverage, including claims related to adverse patient events, contractual disputes, professional and general liability, and directors' and officers' duties. We currently maintain insurance coverage for those risks we deem are appropriate. However, a successful claim, including a professional liability, malpractice or negligence claim which is in excess of any applicable insurance coverage, or not covered by insurance, could have a material adverse effect on our earnings and cash flows.

In addition, if our costs of insurance and claims increase, then our earnings could decline. Market rates for insurance premiums and deductibles have been steadily increasing. Our earnings and cash flows could be materially and adversely affected by any of the following:

- the collapse or insolvency of our insurance carriers;
- further increases in premiums and deductibles;
- increases in the number of liability claims against us or the cost of settling or trying cases related to those claims;
- an inability to obtain one or more types of insurance on acceptable terms, if at all;
- insurance carriers deny coverage of our claims; or
- our insurance coverage is not adequate.

**We may write off intangible assets, such as goodwill.**

As a result of purchase accounting for our various acquisition transactions, our balance sheet at December 31, 2017 contained intangible assets designated as either goodwill or intangibles totaling approximately $116.1 million in goodwill and approximately $66.0 million in intangibles. Additional acquisitions that result in the recognition of additional intangible assets would cause an increase in these intangible assets. On an ongoing basis, we evaluate whether facts and circumstances indicate any impairment of the value of intangible assets. As circumstances change, we cannot assure you that the value of these intangible assets will be realized by us. If we determine that a significant impairment has occurred, we will be required to write-off the impaired portion of goodwill or other intangible assets, which could have a material adverse effect on our results of operations in the period in which the write-off occurs.

**If we fail to comply with applicable laws and regulations, we could suffer penalties or be required to make significant changes to our operations.**

The health care industry is heavily regulated and we are required to comply with extensive and complex laws and regulations at the federal, state and local government levels relating to among other things:

- billing and coding for services, including documentation of care, appropriate treatment of overpayments and credit balances, and the submission of false statements or claims;
- relationships and arrangements with physicians and other referral sources and referral recipients, including self-referral restrictions, prohibitions on kickbacks and other non-permitted forms of remuneration and prohibitions on the payment of inducements to Medicare and Medicaid beneficiaries in order to influence their selection of a provider;
- licensure, certification, enrollment in government programs and certificate of need approval, including requirements affecting the operation, establishment and addition of services and facilities;
- the necessity, appropriateness, and adequacy of medical care, equipment, and personnel and conditions of coverage and payment for services;
- quality of care and data reporting;
- restrictions on ownership of surgery centers;
- operating policies and procedures;
- qualifications, training and supervision of medical and support personnel;
- fee-splitting and the corporate practice of medicine;
- screening, stabilization and transfer of individuals who have emergency medical conditions;
- workplace health and safety;
- consumer protection;

- anti-competitive conduct;
- confidentiality, maintenance, data breach, identity theft and security issues associated with health-related and other personal information and medical records; and
- environmental protection.

Because of the breadth of these laws and the narrowness of available exceptions and safe harbors, it is possible that some of our business activities could be subject to challenge under one or more of these laws. For example, failure to bill properly for services or return overpayments and violations of other statutes, such as the federal Anti-Kickback Statute or the federal Stark Law, may be the basis for actions under the FCA or similar state laws. Under HIPAA, criminal penalties may be imposed for healthcare fraud offenses involving not just federal healthcare programs but also private health benefit programs.

Enforcement actions under some statutes, including the FCA, may be brought by the government as well as by a private person under a *qui tam* or "whistleblower" lawsuit. Federal enforcement officials have numerous enforcement mechanisms to combat fraud and abuse, including bringing civil actions under the Civil Monetary Penalty Law, which has a lower burden of proof than criminal statutes.

If we fail to comply with applicable laws and regulations, we could suffer civil or criminal penalties, including fines, damages, recoupment of overpayments, loss of licenses needed to operate, and loss of enrollment and approvals necessary to participate in Medicare, Medicaid and other government sponsored and third-party healthcare programs. Federal enforcement officials have the ability to exclude from Medicare and Medicaid any investors, officers and managing employees associated with business entities that have committed healthcare fraud.

Many of these laws and regulations have not been fully interpreted by regulatory authorities or the courts, and their provisions are sometimes open to a variety of interpretations. Different interpretations or enforcement of existing or new laws and regulations could subject our current practices to allegations of impropriety or illegality, or require us to make changes in our operations, facilities, equipment, personnel, services, capital expenditure programs or operating expenses to comply with the evolving rules. Any enforcement action against us, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

The laws and regulations governing the provision of healthcare services are frequently subject to change and may change significantly in the future. We cannot assure you that current or future legislative initiatives, government regulation or judicial or regulatory interpretations thereof will not have a material adverse effect on us. We cannot assure you that a review of our business by judicial, regulatory or accreditation authorities will not subject us to fines or penalties, require us to expend significant amounts, reduce the demand for our services or otherwise adversely affect our operations.

**Our relationships with referral sources and recipients, including healthcare providers, facilities and patients, are subject to the federal Anti-Kickback Statute and similar state laws.**

The federal Anti-Kickback Statute prohibits healthcare providers and others from knowingly and willfully soliciting, receiving, offering or paying, directly or indirectly, any remuneration in return for, or to induce, referrals or orders for services or items covered by a federal healthcare program. In addition, many of the states in which we operate also have adopted laws, similar to the Anti-Kickback Statute, that prohibit payments to physicians in exchange for referrals, some of which apply regardless of the source of payment for care. The Anti-Kickback Statute and similar state laws are broad in scope and many of their provisions have not been uniformly or definitively interpreted by case law or regulations. Courts have found a violation of the federal Anti-Kickback Statute if just one purpose of the remuneration is to generate referrals, even if there are other lawful purposes. Furthermore, the Health Reform Law provides that knowledge of the law or intent to violate the law is not required to establish a violation of the Anti-Kickback Statute. Congress and HHS have established narrow safe harbor provisions that outline practices deemed protected from prosecution under the federal Anti-Kickback Statute. While we endeavor to comply with applicable safe harbors, certain of our current arrangements, including the ownership structures of our surgery centers, do not satisfy all of the requirements of a safe harbor. Failure to qualify for a safe harbor does not mean the arrangement necessarily violates the Anti-Kickback Statute, but may subject the arrangement to greater scrutiny. Violations of the Anti-Kickback Statute and similar state laws may result in substantial civil or criminal penalties and loss of licensure, which could have a material adverse effect on our business.

Although we believe that we are currently in material compliance with all applicable environmental laws and regulations, and expect such compliance will continue in the future, there can be no assurance that we will not violate the requirements of one or more of these laws or that we will not have to expend significant amounts to remediate or ensure compliance.

**We may be subject to changes in current law or the enactment of future legislation.**

In recent years, a variety of legislative and regulatory initiatives have occurred on both the federal and state levels concerning physician ownership of healthcare entities to which physicians refer patients, third-party payment programs and other regulatory matters concerning ASCs. We anticipate that federal and state legislatures will continue to review and assess alternative healthcare delivery and payment systems. Potential approaches that have been considered include mandated basic health care benefits, controls on health care spending through limitations on the growth of private health insurance premiums and Medicare and Medicaid spending, the creation of large insurance purchasing groups, pay for performance systems, and other fundamental changes to the health care delivery system. Private sector providers and payors have embraced certain elements of reform, resulting in increased consolidation of health care providers and payors as those providers and payors seek to form alliances in order to provide cost effective, quality care. Legislative debate is expected to continue in the future, and we cannot predict what impact the adoption of any federal or state health care reform measures or future private sector reform may have on its business.

It is not possible to predict what federal or state initiatives, if any, may be adopted in the future or how such changes might affect us. If a federal or state agency asserts a different position or enacts new legislation regarding ASCs, we may experience a significant reduction in our revenues, be excluded from participation in third-party payor programs, or be subject to future civil and criminal penalties.

**If we fail to successfully maintain an effective internal control over financial reporting, the integrity of our financial reporting could be compromised, which could result in a material adverse effect on our reported financial results.**

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock. Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

**Technologies, tools, software, and applications could block our advertisements, impair our ability to deliver interest-based advertising, or shift the location in which our advertising appears, which could harm our operating results.**

Technologies, tools, software, and applications (including new and enhanced internet web browsers) have been developed and are likely to continue to be developed that can block display, search, and interest-based advertising and content, delete or block the cookies used to deliver such advertising, or shift the location in which advertising appears on pages so that our advertisements do not show up in the most favorable locations or are obscured. Most of our marketing expenditures are fees paid to internet search companies for the display of our graphical advertisements or clicks on search advertisements on internet web pages. As a result, the adoption of such technologies, tools, software, and applications could reduce the frequency with which, or prominence of, our advertisements in search results. Further, we may not be able to continue to procure and/or to afford primary placement in interest-based advertising locations and this, in turn, could reduce our ability to attract prospective patients to our services or to attract or retain customers to whom we provide marketing and advertising services.

**We rely on third parties to provide the technologies necessary to deliver content, advertising, and services to our prospective patients, and any change in the service terms, costs, availability, or acceptance of these formats and technologies could adversely affect our business.**

We rely on third parties to provide the technologies that we use to deliver our content and our advertising to prospective patients through the use of search engine optimization services. There can be no assurance that these providers will continue to provide us with search engine optimization services on reasonable terms, or at all. Providers may change the fees they charge for these services or otherwise change their business model in a manner that slows the widespread use of their platforms and search engines. In order for our services to be successful, we must procure a prominent place in the search results from major search providers. These providers in turn rely on a large base of users of their technologies necessary to deliver our content and our advertising to prospective patients. We have limited or no control over the availability or acceptance of those providers' technologies, and any change in the terms, costs, availability of search engine optimization services or in end-user utilization of the service providers with whom we have chosen to work could adversely affect our business.

**Any failure to scale and adapt our existing technology architecture to manage expansion of user-facing services and to respond to rapid technological change could adversely affect our business.**

Our proprietary software for managing patient flow through our system relies on software, networking and telecommunications technologies. Technological changes could require substantial expenditures to modify or adapt our infrastructure. The technology architectures and platforms utilized for our services are highly complex and may not provide satisfactory security features or support in the future, as usage increases and products and services expand, change, and become more complex. In the future, we may make additional changes to our existing, or move to completely new, architectures, platforms and systems, or our prospective patients may increasingly access our sites through devices that compel us to invest in new architectures, platforms and systems. Such changes may be technologically challenging to develop and implement, may take time to test and deploy, may cause us to incur substantial costs or data loss, and may cause changes, delays or interruptions in service. These changes, delays, or interruptions in our systems may disrupt our business. Also, to the extent that demands for our services increase, we may need to expand our infrastructure, including the capacity of our hardware servers and the sophistication of our software in order to sustain our ability to manage patient-flow through. This expansion is likely to be expensive and complex and require additional technical expertise. Further, it is costly to retrieve, store, and integrate data that enables us to track our patients through our processes. Any difficulties experienced in adapting our architectures, platforms and infrastructure to accommodate increased patient flow, to store user data, and track patient status preferences, together with the associated costs and potential loss of traffic, could harm our operating results, cash flows from operations, and financial condition.

**If our security measures are breached, we may face significant legal and financial exposure. Further, a breach could result in the perception that our technology is insecure or insufficient to protect sensitive patient data, and patients, physicians and healthcare facilities may curtail or stop partnering with us or cease using services, and we may incur significant legal and financial exposure.**

Our products and services involve the storage and transmission of patient and potential patient personal and medical information, including "Protected Health Information" that is subject to the security and privacy proprietary information in our facilities and on our equipment, networks and corporate systems. Security breaches expose us to a risk of loss of this information, litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation, and potential liability. Our user data and corporate systems and security measures have been and may in the future be breached due to the actions of outside parties (including cyber-attacks), employee error, malfeasance, a combination of these, or otherwise, allowing an unauthorized party to obtain access to our data or our users' or customers' data. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data.

Any breach or unauthorized access could result in significant legal and financial exposure, increased remediation and other costs, damage to our reputation and a loss of confidence in the security of our products, services and networks that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our business, our brand or our reputation with users. The interpretation and application of privacy, data protection and data retention laws and regulations are often uncertain and in flux in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, complicating long-range business planning decisions. If privacy, data protection or data retention laws are interpreted and applied in a manner that is inconsistent with our current policies and practices we may be fined or ordered to change our business practices in a manner that adversely impacts our operating results. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

**Our business depends on strong brands related to our procedures, and failing to maintain or enhance our brands in a cost-effective manner could harm our operating results.**

Maintaining and enhancing our brands is an important aspect of our efforts to attract potential patients. We believe that the importance of brand recognition will increase due to the relatively low barriers to entry in certain portions of the market. Maintaining and enhancing our brands will depend largely on the ability of third parties to perform those surgical services in a safe and effective manner. Given the nature of surgical services and the fact that we do not directly control the physicians performing our procedures, there will always be a significant risk that surgeries may not be successful. We have in the past been negatively impacted by negative reputation of a physician partners, and our brands are susceptible to being negatively impacted in the future by the conduct of third parties, including physicians and healthcare facilities.

**Misappropriation or infringement of our intellectual property and proprietary rights, enforcement actions to protect our intellectual property and claims from third parties relating to intellectual property could materially and adversely affect our financial performance.**

Litigation regarding intellectual property rights is common in the internet and technology industries. We expect that internet technologies and software products and services may be increasingly subject to third party infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Our ability to compete depends upon our proprietary systems and technology. While we rely on trademark, trade secret, patent and copyright law, confidentiality agreements and technical measures to protect our proprietary rights, we believe that the technical and creative skills of our personnel, continued development of our proprietary systems and technology, brand name recognition and reliable website maintenance are more essential in establishing and maintaining a leadership position and strengthening our brands. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our services or to obtain and use information that we regard as proprietary. Policing unauthorized use of our proprietary rights is difficult and may be expensive. We have no assurance that the steps taken by us will prevent misappropriation of technology or that the agreements entered into for that purpose will be enforceable. Effective trademark, service mark, patent, copyright and trade secret protection may not be available when our products and services are made available online. In addition, if litigation becomes necessary to enforce or protect our intellectual property rights or to defend against claims of infringement or invalidity, this litigation, even if successful, could result in substantial costs and diversion of resources and management's attention. We also have no assurances that our products and services do not infringe on the intellectual property rights of third parties. Claims of infringement, even if unsuccessful, could result in substantial costs and diversion of resources and management's attention. If we are not successful, we may be subject to preliminary and permanent injunctive relief and monetary damages which may be trebled in the case willful infringements.

**We may be unable to implement our organic growth strategy.**

Future growth will place increased demands on our management, operational and financial information systems and other resources. Further expansion of our operations will require substantial financial resources and management resources and attention. To accommodate our anticipated future growth, and to compete effectively, we will need to continue to implement and improve our management, operational, financial and information systems and to expand, train, manage and motivate our workforce. Our personnel, systems, procedures and controls may not be adequate to support our operations in the future. Further, focusing our financial resources and management attention on the expansion of our operations may negatively impact our financial results. Any failure to implement and improve our management, operational, financial and information systems, or to expand, train, manage or motivate our workforce, could reduce or prevent our growth. We can give no assurances that our personnel, systems, procedures and controls will be adequate to support our operations in the future or that our financial resources and management attention on the expansion of our operations will not adversely affect our business, result of operations and financial condition. In addition, direct-to-consumer marketing may not be a suitable means to attract case volume as patients may not directly seek our services, but instead may choose to consult with a non-Nobilis-affiliated physician. We can offer no guarantees that the financial resources expended on direct-to-consumer marketing campaigns will result in the expansion of our business.

**Restrictive covenants in our loan agreement may restrict our ability to pursue our business strategies.**

The operating and financial restrictions and covenants in our loan agreement may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. Such agreements limit our ability, among other things, to:

- incur additional indebtedness or issue certain preferred equity;
- pay dividends on, repurchase or make distributions in respect of our common shares, prepay, redeem, or repurchase certain debt or make other restricted payments;
- make certain investments;
- create certain liens;
- enter into agreements restricting our subsidiaries' ability to pay dividends, loan money, or transfer assets to us;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

A breach of any of these covenants could result in a default under our loan agreement and permit the lenders to cease making loans to us. Upon the occurrence of an event of default under the loan agreement, the creditors thereunder could elect to declare all amounts outstanding to be immediately due and payable and, in the case of our revolving credit facility, which is a part of the loan agreement, terminate all commitments to extend further credit.

If our operating performance declines, we may be required to obtain waivers from the lenders under the loan agreement to avoid defaults thereunder. If we are not able to obtain such waivers, our creditors could exercise their rights upon default.

Furthermore, if we were unable to repay the amounts due and payable under our secured obligations, the creditors thereunder could proceed against the collateral granted to them to secure our obligations thereunder. We have pledged a significant portion of our assets, including our ownership interests in certain of our directly owned subsidiaries, as collateral under our loan agreement. If the creditors under our loan agreement accelerate the repayment of our debt obligations, we cannot assure you that we will have sufficient assets to repay our loan agreement, or will have the ability to borrow sufficient funds to refinance such indebtedness. Even if we were able to obtain new financing, it may not be on commercially reasonable terms, or terms that are acceptable to us.

**We may incur unexpected, material liabilities as a result of acquisitions.**

Although we intend to conduct due diligence on any future acquisition, we may inadvertently invest in acquisitions that have material liabilities arising from, for example, the failure to comply with government regulations or other past activities. Although we have professional and general liability insurance, we do not currently maintain and are unlikely to acquire insurance specifically covering every unknown or contingent liability that may have occurred prior to our investment in our facilities, particularly those involving prior civil or criminal misconduct (for which there is no insurance). Incurring such liabilities as a result of future acquisitions could have an adverse effect on our business, operations and financial condition.

**We may be subject to professional liability claims.**

As a healthcare provider, we are subject to professional liability claims both directly and vicariously through the malpractice of members of our medical staff. We are responsible for the standard of care provided in our facilities by staff working in those facilities. We have legal responsibility for the physical environment and appropriate operation of equipment used during surgical procedures. In addition, we are subject to various liability for the negligence of its credentialed medical staff under circumstances where we either knew or should have known of a problem leading to a patient injury. The physicians credentialed at our facilities are involved in the delivery of healthcare services to the public and are exposed to the risk of professional liability claims. Although we neither control the practice of medicine by physicians nor have responsibility for compliance with certain regulatory and other requirements directly applicable to physicians and their services, as a result of the relationship between us and the physicians providing services to patients in our facilities, we or our subsidiaries may become subject to medical malpractice claims under various legal theories. Claims of this nature, if successful, could result in damage awards to the claimants in excess of the limits of available insurance coverage. Insurance against losses related to claims of this type can be expensive and varies widely from state to state. We maintain and require the physicians on the medical staff of our facilities to maintain liability insurance in amounts and coverages believed to be adequate, presently $1 million per claim to an aggregate of $3 million per year.

In 2003, Texas passed legislation that reformed its laws related to professional liability claims by setting caps on non-economic damages in the amount of $250,000 per claimant to a per claim aggregate of $750,000 for physicians and other providers, including ASCs. In Texas, punitive damages awarded against a defendant may not exceed an amount equal to the greater of: (1) (A) two times the amount of economic damages; plus (B) an amount equal to any non-economic damages found by the jury not to exceed $750,000 or (2) $200,000.

This tort reform legislation has resulted in a reduction in the cost of malpractice insurance because of the reduction in malpractice claims. However, there can be no assurances that this trend will continue into the future.

Most malpractice liability insurance policies do not extend coverage for punitive damages. While extremely rare in the medical area, punitive damages are those damages assessed by a jury with the intent to “punish” a tortfeasor rather than pay for a material loss resulting from the alleged injury. We cannot assure you that we will not incur liability for punitive damage awards even where adequate insurance limits are maintained. We also believe that there has been, and will continue to be, an increase in governmental investigations of physician-owned facilities, particularly in the area of Medicare/Medicaid false claims, as well as an increase in enforcement actions resulting from these investigations. Investigation activity by private third-party payors has also increased with, in some cases, intervention by the states’ attorneys general. Also possible are potential non-covered claims, or “qui tam” or “whistleblower” suits.

Although exposure to qui tam lawsuits is minimal since Medicare and Medicaid comprise less than 4.0% of our revenue and an even smaller percentage of our profit. Many plaintiffs’ lawyers have refocused their practices on “whistleblower” lawsuits given the reduction in awards from medical malpractice claims. These whistleblower lawsuits are based on alleged violations of government law related to billing practice and kickbacks. Under federal Medicare law, these whistleblowers are entitled to receive a percentage of recoveries made if the federal government takes on the case. However, a whistleblower may pursue direct action against the healthcare entity under the applicable statutes and seek recoveries without federal government intervention. Many malpractice carriers will not insure for violations of the law although they may cover the cost of defense. Any adverse determination in a legal proceeding or governmental investigation, whether currently asserted or arising in the future, could have a material adverse effect on our financial condition.

We may, in the ordinary course of their business, be subject to litigation claims. In particular, we can be subject to claims relating to actions of medical personnel performing services at our facilities. Historically, we have been able to obtain what we believe is adequate insurance to cover these risks. However, the cost of this insurance may increase and there can be no assurance that we will be able to obtain adequate insurance against medical liability claims in the future on economically reasonable terms, or at all. In addition, claims of this nature, if successful, could result in damage awards to the claimants in excess of the limits of any applicable insurance coverage. If the insurance that we have in place from time to time is not sufficient to cover claims that are made, the resulting shortfall could have a material adverse effect on our business and operations.

Our insurance coverage might not cover all claims against us or be available at a reasonable cost, if at all. If we are unable to maintain insurance coverage, if judgments are obtained in excess of the coverage we maintain, or if we are required to pay uninsured punitive damages or pay fines under “qui tam” lawsuits, we would be exposed to substantial additional liabilities. We cannot assure that we will be able to maintain insurance coverage at a reasonable premium, or at all, that coverage will be adequate to satisfy adverse determinations against us, or that the number of claims will not increase.

**Malpractice insurance premiums or claims may adversely affect our business.**

Should adverse risk management claims arise against us or should the market for medical malpractice dictate a large increase in rates, our business and financial results could be adversely affected.

**We rely on technology.**

The medical technology used in our facilities is ever changing and represents a significant cost of doing business. There can be no assurance that the equipment purchased or leased by our facilities will not be enhanced or rendered obsolete by advances in medical technology, or that our facilities will be able to finance or lease additional equipment necessary to remain competitive should its medical staff physicians request such modern equipment or its existing equipment become obsolete. This could have an adverse effect on our business, operations and financial condition.

**We are subject to rising costs.**

The costs of providing our services have been rising and are expected to continue to rise at a rate higher than that anticipated for consumer goods as a whole. As a result, our business, operating results or financial condition could be adversely affected if we are unable to implement annual private pay increases due to changing market conditions or otherwise increase our revenues to cover increases in labor and other costs.

**We depend on referrals.**

Our success, in large part, is dependent upon referrals to our physicians from other physicians, systems, health plans and others in the communities in which we operate, and upon our medical staff’s ability to maintain good relations with these referral sources. Physicians who use our facilities and those who refer patients are not our employees and, in many cases, most physicians have admitting privileges at other specialty surgical hospitals and (subject to any applicable non-competition arrangements) may refer patients to other providers. If we are unable to successfully cultivate and maintain strong relationships with our physicians and their referral sources, the number of procedures performed at our facilities may decrease and cause revenues to decline. This could adversely affect our business, results of operations and financial condition.

**We may face a shortage of nurses.**

The United States is currently experiencing a shortage of nursing staff. Our failure to hire and retain qualified nurses could have a material adverse effect on our business operations and financial condition.

**We are subject to Canadian tax laws.**

Our company’s income and our related entities must be computed in accordance with Canadian and foreign tax laws, as applicable, and we are subject to Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributions to shareholders. There can be no assurance that Canadian federal income tax laws, the judicial interpretation thereof or the administrative and assessing practices and policies of the Canada Revenue Agency and the Department of Finance (Canada) will not be changed in a manner that adversely affects shareholders. In particular, any such change could increase the amount of tax payable by us, reducing the amount available to pay dividends to the holders of our common shares.

**We are subject to U.S. tax laws and local state tax laws.**

There can be no assurance that United States federal income tax laws and local state tax laws and Internal Revenue Service and Department of the Treasury administrative and legislative policies respecting the United States federal income tax consequences described herein will not be changed in a manner that adversely affects the holders of our common shares.

**Future issuances of our common shares could result in dilution.**

Our articles authorize the issuance of an unlimited number of common shares, on terms that the Board of Directors, without approval of any shareholders, establishes. We may issue additional common shares in the future in connection with a future financing or acquisition. The issuance of additional shares may dilute the investment of a shareholder. We also have outstanding warrants to purchase a significant number of common shares as well as a stock option pool available to employees, which if exercised, would cause dilution to our stockholders.

**We qualify as an "emerging growth company" under the JOBS Act. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. For so long as we are an emerging growth company, we will not be required to:**

- have an auditor report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to shareholder advisory votes, such as "say-on-pay" and "say-on- frequency"; and
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive's compensation to median employee compensation.

We will remain an "emerging growth company" until the earliest of (i) the last day of the first fiscal year in which our total annual gross revenues exceed $1 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, which would occur if the market value of our ordinary shares that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter, (iii) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three year period or (iv) the last day of the fiscal year in which we celebrate the fifth anniversary of our first sale of registered common equity securities pursuant to the Securities Act of 1933, as amended, which occurred on June 4, 2015.

Until such time, however, we cannot predict if investors will find our common shares less attractive because we may rely on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and our stock price may be more volatile.

**The price of our common shares is subject to volatility** .

Broad market and industry factors may affect the price of our common shares, regardless of our actual operating performance. Factors unrelated to our performance that may have an effect on the price of our securities include the following: the extent of analytical coverage available to investors concerning our business may be limited if investment banks with research capabilities do not follow our securities; speculation about our business in the press or the investment community; lessening in trading volume and general market interest in our securities may affect an investor's ability to trade significant numbers of our securities; additions or departures of key personnel; sales of our common shares, including sales by our directors, officers or significant stockholders; announcements by us or our competitors of significant acquisitions, strategic partnerships of divestitures; and a substantial decline in the price of our securities that persists for a significant period of time could cause our securities to be delisted from an exchange, further reducing market liquidity. If an active market for our securities does not continue, the liquidity of an investor's investment may be limited and the price of our securities may decline. If an active market does not exist, investors may lose their entire investment. As a result of these factors, the market price of our securities at any given point in time may not accurately reflect our long term value. Securities class-action litigation often has been brought against companies in periods of volatility in the market price of their securities, and following major corporate transactions or mergers and acquisitions. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

**Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

Our principal executive offices are located in Houston, Texas, which we lease from a third-party pursuant to an agreement with an initial term expiring in October 2020. Our Marketing Segment primarily operates from offices located in Dallas, Texas, which we lease from a third-party pursuant to an agreement that commenced in April 2017. The Nobilis Facilities, part of our Medical Segment, lease space for the specialty hospitals, ASCs and multi-specialty clinics, as applicable, with expected remaining lease terms ranging from approximately 1 to 18 years.

### Facility Operations

As of December 31, 2017 , unless otherwise indicated, each of our surgical facilities in which we operate is set forth in the table below. We lease the real property for each of these facilities.

| Facility | City | State | Number of Operating Rooms | Number of Procedure Rooms | Nobilis Percentage Ownership |
|---|---|---|---|---|---|
| ***Hospitals*** | | | | | |
| Elite Hospital Management (of Oakbend Health System) | Houston | Texas | 4 | 1 | 50.1% (1) |
| First Surgical Hospital | Bellaire | Texas | 4 | 1 | 51% (2) |
| Hermann Drive Surgical Hospital | Houston | Texas | 6 | 2 | 55.25% |
| Plano Surgical Hospital | Plano | Texas | 6 | 2 | 100% |
| Scottsdale Liberty Hospital | Scottsdale | Arizona | 2 | 1 | 75% |
| | | | | | |
| ***ASCs*** | | | | | |
| Arizona Vein & Vascular | Chandler | Arizona | 3 | — | 100% |
| Arizona Vein & Vascular | Phoenix | Arizona | 3 | — | 100% |
| Arizona Vein & Vascular | Tucson | Arizona | 1 | — | 100% |
| Elite Center for Minimally Invasive Surgery (of Oakbend Health System) | Houston | Texas | 4 | — | 50.1% (1) |
| Elite Sinus Spine & Ortho (of Oakbend Health System) | Houston | Texas | 5 | — | 50.1% (1) |
| First Street Surgical Center (of First Surgical Hospital) | Bellaire | Texas | 4 | 1 | 51% (3) |
| Houston Metro Orthopedic & Spine Surgery (of Oakbend Health System) | Houston | Texas | 3 | — | 50.1% (1) |
| Kirby Surgical Center | Houston | Texas | 4 | 1 | 25% |
| Medical Park Specialty Center (of First Surgical Hospital) | Dickinson | Texas | 1 | 1 | 100% |
| Mountain West Surgery Center (of Mesa Hills Specialty Hospital) | El Paso | Texas | 2 | 2 | 100% |
| Northstar Healthcare Surgery Center - Houston | Houston | Texas | 3 | 2 | 100% (4) |
| Northstar Healthcare Surgery Center - Scottsdale | Scottsdale | Arizona | 4 | 1 | 100% |
| Uptown Surgery Center (of Atrium Medical Center) | Dallas | Texas | 2 | — | 100% |
| | | | | | |
| ***Multi-Specialty Clinics*** | | | | | |
| Arizona Vein & Vascular | Chandler | Arizona | — | — | 100% |
| Arizona Vein & Vascular | Phoenix | Arizona | — | — | 100% |
| Arizona Vein & Vascular | Surprise | Arizona | — | 6 | 100% |
| Arizona Vein & Vascular | Tucson | Arizona | — | — | 100% |
| DeRosa Medical, P.C. Clinic | Chandler | Arizona | — | 8 | 100% |

| | | | | | |
|---|---|---|---|---|---|
| DeRosa Medical, P.C. Clinic | Glendale | Arizona | — | 6 | 100% |
| DeRosa Medical, P.C. Clinic | Scottsdale | Arizona | — | 13 | 100% |
| Hamilton Vein Clinic | Clear Lake | Texas | — | 3 | 100% |
| Hamilton Vein Clinic | Katy | Texas | — | 3 | 100% |
| Hamilton Vein Clinic | Round Rock | Texas | — | 4 | 100% |
| Hamilton Vein Clinic | Stone Oak | Texas | — | 3 | 100% |
| Hamilton Vein Clinic | Sugar Land | Texas | — | 4 | 100% |
| Hamilton Vein Clinic | Woodlands | Texas | — | 3 | 100% |
| P5 Performance | Frisco | Texas | — | 2 | 100% |
| Piney Point Women's Center | Houston | Texas | — | 1 | 51% (5) |

(1) Elite Hospital Management LLC, Elite Sinus Spine and Ortho LLC, Houston Metro Ortho and Spine Surgery Center LLC and Elite Center for Minimally Invasive Surgery LLC are owned 50.1% by Nobilis Healthcare Surgery Center, LLC and 49.9% by a third party.
(2) First Surgical Hospital is a wholly owned subsidiary of First Nobilis, LLC, the entity owned 51% by Northstar Healthcare Acquisitions, LLC and 49% by a third party.
(3) First Street Surgical Center is a wholly owned subsidiary of First Nobilis, LLC, the entity owned 51% by Northstar Healthcare Acquisitions, LLC and 49% by a third party.
(4) Northstar Healthcare Surgery Center - Houston ceased operations as of November 2017.
(5) Piney Point Women's Center is an HOPD of First Surgical Hospital, which is a wholly owned subsidiary of First Nobilis Hospital, LLC the entity owned 51% by Northstar Healthcare Acquisitions, LLC and 49% by a third party.

**Item 3. Legal Proceedings**

Information relating to legal proceedings is described in Note 25 - Commitments and Contingencies to our consolidated financial statements included in Part II, Item 8. - Financial Statements and Supplementary Data of this Annual Report, and the information discussed therein is incorporated by reference into this Item 3.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

**Market Prices and Dividends**

The Company's common shares were voluntarily delisted from the Toronto Stock Exchange (TSX) at the close of markets on December 30, 2016 pursuant to the Company’s application for voluntary delisting and the satisfaction of the conditions to delist from the TSX. The delisting from the TSX did not affect the Company’s listing on the NYSE listing.

Our outstanding common shares, no par value, are on the NYSE MKT under the symbol “HLTH”. Our common shares traded on the over the counter (OTC) pink sheets in the United States until April 17, 2015 when it commenced trading on the NYSE MKT. The following table outlines the share price trading ranges by quarter as follows:

| | Toronto Stock Exchange | | NYSE MKT/OTC Pink Sheets | |
|---|---|---|---|---|
| | Share Price Trading Range | | Share Price Trading Range | |
| | High | Low | High | Low |
| | (C$ per share) | | ($ per share) | |
| **2017** | | | | |
| 1st Quarter | — | — | 2.80 | 1.25 |
| 2nd Quarter | — | — | 2.10 | 1.10 |
| 3rd Quarter | — | — | 1.95 | 1.35 |
| 4th Quarter | — | — | 1.55 | 1.25 |
| **2016** | | | | |
| 1st Quarter | 4.85 | 4.44 | 3.62 | 1.82 |
| 2nd Quarter | 6.00 | 5.67 | 4.66 | 4.40 |
| 3rd Quarter | 4.97 | 4.84 | 3.86 | 3.77 |
| 4th Quarter | 4.72 | 4.60 | 3.65 | 3.48 |
| **2015** | | | | |
| 1st Quarter | 6.72 | 3.14 | 5.24 | 2.70 |
| 2nd Quarter | 11.00 | 6.38 | 9.34 | 5.14 |
| 3rd Quarter | 9.50 | 5.04 | 7.80 | 3.83 |
| 4th Quarter | 5.50 | 2.83 | 5.95 | 2.15 |

As of March 8, 2018 there were approximately 18 holders of record of our common shares, not including beneficial owners holding shares through nominee names.

We have not declared or paid any cash dividends on our common shares for over five years and we do not anticipate paying any dividends in the foreseeable future. We expect to retain any future earnings to finance our operations and expansion. The payment of cash dividends in the future will depend upon our future revenues, earnings and capital requirements and other factors the Board of Directors consider relevant.

**Equity Compensation Plan Information**

The following table summarizes certain information regarding our equity compensation plans as of December 31, 2017 :

| Equity Compensation Plan Information | | | |
|---|---|---|---|
| **Plan Category** | **Number of securities to be issued upon exercise of outstanding options, warrants and rights** (1) | **Weighted-average exercise price of outstanding options, warrants and rights** | **Number of securities remaining available for future issuance under equity compensation plans** (1) (2) |
| Equity compensation plans approved by security holders (aggregated) | 8,864,025 | $2.17 | 6,772,735 |

Notes:

*(1) Includes securities under our Fourth Amended and Restated Restricted Share Unit Plan and First Amended Stock Option Plan (the "Stock Option Plan") up to December 31, 2017 .*
*(2) Excludes securities reflected in column entitled "Number of securities to be issued upon exercise of outstanding options, warrants and rights"*

**Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities**

The Company issued 378,778 unregistered common shares in conjunction with the acquisition of Elite.

**Purchase of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

**Performance Graph**

The information required by this item is incorporated by reference to our definitive proxy statement for our 2017 Annual Meeting of Shareholders pursuant to Regulation 14A under the Exchange Act, which we expect to file with the SEC within 120 days after the close of the year ended December 31, 2017 .

**Exchange Controls**

There are no governmental laws, decrees or regulations in Canada that restrict the export or import of capital, including foreign exchange controls, or that affect the remittance of dividends, interest or other payments to non-resident holders of the securities of Nobilis, other than Canadian withholding tax. See "Certain Canadian Federal Income Tax Considerations for Non-Resident Holders" below.

**Certain Canadian Federal Income Tax Considerations for Non-Resident Holders**

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable under the *Income Tax Act* (Canada) and the regulations promulgated thereunder (the "Tax Act") to a holder who acquires, as beneficial owner, our common shares, and who, for purposes of the Tax Act and at all relevant times: (i) holds the common shares as capital property; (ii) deals at arm's length with, and is not affiliated with, us or the underwriters; (iii) is not, and is not deemed to be resident in Canada; and (iv) does not use or hold and will not be deemed to use or hold, our common shares in a business carried on in Canada, or a "Non-Resident Holder." Generally, our common shares will be considered to be capital property to a Non-Resident Holder provided the Non-Resident Holder does not hold our common shares in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer that carries on an insurance business in Canada and elsewhere.

**Such Non-Resident Holders should seek advice from their own tax advisors** .

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals (the "Proposed Amendments"), to amend the Tax Act that have been publicly and officially announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and management's understanding of the current administrative policies and practices of the Canada Revenue Agency (the CRA), published in writing by it prior to the date hereof. This summary assumes the Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that the Proposed Amendments will be enacted in their current form, or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law or any changes in the CRA's administrative policies or practices, whether by legislative, governmental or judicial action or decision, nor does it take into account or anticipate any other federal or any provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

**Non-Resident Holders should consult their own tax advisors with respect to an investment in our common shares. This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any prospective purchaser or holder of our common shares, and no representations with respect to the income tax consequences to any prospective purchaser or holder are made. Consequently, prospective purchasers or holders of our common shares should consult their own tax advisors with respect to their particular circumstances.**

*Currency Conversion*

Generally, for purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of our common shares must be converted into Canadian dollars based on the exchange rates as determined in accordance with the Tax Act. The amounts subject to withholding tax and any capital gains or capital losses realized by a Non-Resident Holder may be affected by fluctuations in the Canadian-U.S. dollar exchange rate.

*Disposition of Common Shares*

A Non-Resident Holder will not generally be subject to tax under the Tax Act on a disposition of a common share, unless the common share constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention.

Provided the common shares are listed on a "designated stock exchange", as defined in the Tax Act (which currently includes the TSX and NYSE MKT) at the time of disposition, the common shares will generally not constitute taxable Canadian property of a NonResident Holder at that time, unless at any time during the 60-month period immediately preceding the disposition the following two conditions are satisfied concurrently: (i) (a) the Non-Resident Holder; (b) persons with whom the Non-Resident Holder did not deal at arm's length; (c) partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships; or (d) any combination of the persons and partnerships described in (a) through (c), owned 25% or more of the issued shares of any class or series of our shares; and (ii) more than 50% of the fair market value of our shares was derived directly or indirectly from one or any combination of: real or immovable property situated in Canada, "Canadian resource properties", "timber resource properties" (each as defined in the Tax Act), and options in respect of, or interests in or for civil law rights in, such properties. Notwithstanding the foregoing, in certain circumstances set out in the Tax Act, the common shares could be deemed to be taxable Canadian property. Even if the common shares are taxable Canadian property to a Non-Resident Holder, such Non-Resident Holder may be exempt from tax under the Tax Act on the disposition of such common shares by virtue of an applicable income tax treaty or convention.

**A Non-Resident Holder contemplating a disposition of common shares that may constitute taxable Canadian property should consult a tax advisor prior to such disposition.**

*Receipt of Dividends*

Dividends received or deemed to be received by a Non-Resident Holder on our common shares will be subject to Canadian withholding tax under the Tax Act. The general rate of withholding tax is 25%, although such rate may be reduced under the provisions of an applicable income tax convention between Canada and the Non-Resident Holder's country of residence. For example, under the *Canada-United States Income Tax Convention (1980)* as amended, or the Treaty, the rate is generally reduced to 15% where the Non-Resident Holder is a resident of the United States for the purposes of, and is entitled to the benefits of, the Treaty.

## Item 6. Selected Financial Data

This section presents our selected consolidated financial data for the periods and as of the dates indicated. The selected historical consolidated financial data presented below is not intended to replace our historical consolidated financial statements. The following selected consolidated financial data should be read in conjunction with both Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report in order to understand those factors, such as the acquisition of AZ Vein, which may affect the comparability of the Selected Financial Data ( *in thousands, except per share data* ):

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2014** | **2013** |
| Revenues | $ 299,717 | $ 285,744 | $ 229,216 | $ 84,029 | $ 31,128 |
| Net income | $ 10,281 | $ 7,102 | $ 63,933 | $ 15,970 | $ 6,674 |
| Net income attributable to noncontrolling interests | $ 6,484 | $ 653 | $ 13,093 | $ 13,077 | $ 5.476 |
| Net income attributable to Nobilis Health Corp. | $ 3,797 | $ 6,449 | $ 50,840 | $ 2,893 | $ 1.198 |
| Net income per common share | | | | | |
| Basic | $ 0.05 | $ 0.08 | $ 0.76 | $ 0.06 | $ 0.03 |
| Diluted | $ 0.05 | $ 0.08 | $ 0.68 | $ 0.06 | $ 0.03 |
| Total Assets | $ 431,038 | $ 305,435 | $ 242,027 | $ 105.332 | $ 22,639 |
| Total long-term debt and long-term capital lease obligations | $ 107,536 | $ 62,960 | $ 35,123 | $ 20,269 | $ 1,905 |

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following MD&A is intended to help the reader understand our operations and our present business environment. MD&A is provided as a supplement to - and should be read in conjunction with - our consolidated financial statements and the accompanying footnotes included in Part II, Item 8 - Financial Statements and Supplementary Data included in this Annual Report. Our MD&A includes forward-looking statements that are subject to risks and uncertainties that may result in actual results differing from the statements we make. These risks and uncertainties are discussed further in Part I, Item 1A - Risk Factors included in this Annual Report. Forward-looking statements include all statements that do not relate solely to historical or current facts and may be identified by the use of words including, but not limited to the following: “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan,” “continue” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. These forward-looking statements are based on the Company's current plans and expectations and are subject to a number of risks, uncertainties and other factors which could significantly affect current plans and expectations and our future financial condition and results. These factors, which could cause actual results, performance and achievements to differ materially from those anticipated, include, but are not limited to the following:

- our ability to successfully maintain effective internal controls over financial reporting, including the impact of material weaknesses identified by management and our ability to remediate such control deficiencies;
- our ability to implement our business strategy, manage the growth in our business, and integrate acquired businesses;
- the risk of litigation and investigations, and liability claims for damages and other expenses not covered by insurance;
- the risk that payments from third-party payers, including government healthcare programs, may decrease or not increase as costs increase;
- adverse developments affecting the medical practices of our physician limited partners;
- our ability to maintain favorable relations with our physician limited partners;
- our ability to grow revenues by increasing case and procedure volume while maintaining profitability;
- failure to timely or accurately bill for services;
- our ability to compete for physician partners, patients and strategic relationships;
- the risk of changes in patient volume and patient mix;
- the risk that laws and regulations that regulate payments for medical services made by government healthcare programs could cause our revenues to decrease;
- the risk that contracts are canceled or not renewed or that we are not able to enter into additional contracts under terms that are acceptable to us; and
- the risk of potential decreases in our reimbursement rates.

The foregoing are significant factors we think could cause our actual results to differ materially from expected results. There could be additional factors besides those listed herein that also could affect us in an adverse manner.

This Annual Report should be read completely and with the understanding that actual future results may be materially different from what we may expect. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof, when evaluating the information presented in this Annual Report or other disclosures because current plans, anticipated actions, and future financial conditions and results may differ from those expressed in any forward-looking statements made by or on behalf of the Company.

The following discussion relates to the Company and its consolidated subsidiaries and should be read in conjunction with our consolidated financial statements and accompanying notes included under Part II, Item 8 - Financial Statements.

**Executive Overview**

Our operations consist of two reportable business segments, the Medical Segment and the Marketing Segment, each of which is described in more detail in the following paragraphs. Our Medical Segment owns and manages specialty surgical hospitals, ambulatory surgery centers (ASCs), and multi-specialty clinics. It focuses on improving patient outcomes by providing minimally invasive procedures that can be performed in low-cost, outpatient settings. To promote further improvements in patient satisfaction and clinical outcomes, Nobilis has spent the last two years developing a full suite of ancillary services that we offer patients treated in our facilities. To date, Nobilis is able to provide a variety of in-house ancillary services, such as Anesthesia, Surgical Assist, Intraoperative Neuromonitoring ("IOM"), and clinical lab testing (collectively, "Nobilis Ancillary Service Lines").

Our business also utilizes innovative direct-to-consumer marketing and proprietary technologies to drive patient engagement and education. Our Marketing Segment provides these services to the facilities that comprise our Medical Segment; we also provide these services to third parties as a stand-alone service.

Our portfolio of specialty surgical hospitals, ASCs, and multi-specialty clinics is complemented by our Marketing Segment, which allows us to operate those facilities in many instances with few, if any, physician partners. Our differentiated business strategy provides value to patients, physicians and payors, and enables us to capitalize on recent trends in the healthcare industry, particularly with regard to increased consumerism in the healthcare space. As a result, we believe we are positioned for continued growth.

In 2018, we will continue to expand the continuum of care that we offer our patients by furthering the integration of primary care physician practices into our business model. Through the alignment of primary care physicians, which includes an array of options from clinical integration to employment, this initiative will allow us to grow our referral based business, while providing direct exposure to the initial level of patient care and diversifying the services provided throughout our healthcare system. It also affords us the opportunity to broaden marketing services throughout the continuum of care and match the healthcare needs of patients, all while maintaining a focus on patient outcomes and satisfaction. Our engagement of primary care physicians at the clinical level will continue to drive contracted revenues and Management’s ongoing efforts to strengthen our revenue platform.

Our pipeline of acquisition targets is robust and varies by geography. We will be opportunistic in choosing the order of these acquisitions and will make our decisions based on geographic location, existing and potential physician relationship and marketing opportunities within the targeted market.

On October 28, 2016 and March 8, 2017, we purchased Arizona Vein and Vascular Center, LLC and its four affiliated surgery centers operating as Arizona Center for Minimally Invasive Surgery, LLC, (collectively, "AZ Vein") and Hamilton Vein Center (HVC) brand and associated assets, respectively. The acquisitions expanded our specialty mix to include the treatment of venous diseases with little modification to our existing infrastructure of specialty surgical hospitals and ASCs. Our facilities will be able to offer a range of treatments, both surgical and non-surgical, for those patients suffering from venous diseases, which today affect more than 30 million Americans.

In addition to our vein and vascular business acquisitions, on September 13, 2017, we purchased DeRosa Medical, P.C. ("DeRosa") for $0.9 million in cash. DeRosa is a primary care practice that specializes in health and wellness, medically supervised weight loss, and chronic health condition management. The practice has three locations in the Phoenix, Arizona metropolitan area: Scottsdale, Chandler, and Glendale. The acquisition of DeRosa allows the Company to enhance our ability to serve patients across the continuum of care, from primary care needs to surgical procedures, utilizing its concierge care delivery model and complementing the existing facilities located in Arizona.

On November 16, 2017, the Company acquired a 50.1% ownership in Elite Surgical Affiliates' ("Elite"), an in-network portfolio that manages three ASCs and one surgical hospital in Houston. The purchase was financed through an expansion of $50.0 million to the Company's current credit facility, cash of $6.1 million, a seller's note of $3.5 million, and stock of $0.5 million. This transaction represents the Company's largest acquisition to date and provides a significant enhancement to the Company's goal to realize the majority of revenues from in-network managed care contracts. In addition, this acquisition represents an expansion of 76 physician partners to the Houston market network of physicians and provides additional benefits in the form of operational efficiencies, increased company footprint, and an increase to available resources.

During the fourth quarter, the Company began operations at Mountain West Surgical Center (ASC) located in El Paso, Texas and Uptown Surgical Center (ASC) in Dallas, Texas. These ASCs will provide similar multi-specialty services to the current brands the Company markets to customers and those currently performed at other company owned facilities. These ASCs generate revenue through in-network contracts and progress the Company's overall in-network contributions to revenue while also capturing additional patients in the Dallas, West Texas, and New Mexico markets.

Our growth strategy focuses on:

- Driving organic growth in facilities that we own and operate; and
- Executing a disciplined acquisition strategy that results in accretive acquisitions.

*Medical Segment*

Our Medical Segment broadly includes our ownership or operation of healthcare facilities (the “Nobilis Facilities”) (which include specialty surgical hospitals, ASCs and multi-specialty clinics) and Nobilis Ancillary Service Lines.

As of December 31, 2017, there are 33 Nobilis Facilities, consisting of 5 specialty surgical hospitals (4 in Texas and 1 in Arizona) (the "Nobilis Hospitals"), 13 ASCs (9 in Texas and 4 in Arizona) and 15 multi-specialty clinics (8 in Texas and 7 in Arizona), partnered with 34 facilities across the country and 9 marketed brands. We earn revenue in our Medical Segment from the “facility fees” or “technical fees” from third party payors or patients for the services rendered at the Nobilis Facilities. The Nobilis Facilities are each licensed in the state where they are located and provide 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 physicians and patients.

These clinical specialties include musculoskeletal surgery, orthopedic surgery, podiatric surgery, vein and vascular, ear nose and throat (ENT) surgery, pain management, gastro-intestinal surgery, gynecology and general surgery. The Nobilis ASCs do not offer the full range of services typically found in traditional hospitals.

*Marketing Segment*

Our Marketing Segment provides marketing services, patient education services and patient care coordination management services to the Nobilis Facilities, to third party facilities in states where we currently do not operate, and to physicians. We market several minimally-invasive medical procedures and brands, which include the following:

- North American Spine: promotion of minimally invasive spine procedures (pain management, musculoskeletal and spine);
- Migraine Treatment Centers of America: promotion of procedures related to chronic migraine pain (interventional headache procedure);
- NueStep: promotion of surgical procedures designed to treat pain in the foot, ankle and leg (podiatry);
- Evolve: The Experts in Weight Loss Surgery: promotion of surgical weight loss procedures (bariatrics);
- Minimally Invasive Reproductive Surgery Institute (“MIRI”): promotion of women’s health related procedures;
- Onward Orthopedics: promotion of general orthopedics, sports medicine related to orthopedics (orthopedics and pain management interventions);
- Clarity Vein and Vascular: promotion of cosmetic and medical vein and vascular treatments; and
- Arizona Vein and Vascular Center: promotion of cosmetic and medical vein and vascular treatments.
- Hamilton Vein Center: promotion of cosmetic and medical vein and vascular treatments.

Our Marketing Segment does not directly provide medical services to patients; rather, we identify candidates for our branded procedures, educate these potential patients about the relevant procedure and direct those patients to affiliated physicians who diagnose and treat those patients at affiliated facilities. Through our Marketing Segment, we have contractual relationships with facilities and physicians in several states.

We earn service fees from our partner facilities that, depending on the laws of the state in which a partner facility is located, are either charged as a flat monthly fee or are calculated based on a portion of the “facility fee” revenue generated by the partner facility for a given procedure.

Our revenues from physician-related services are, depending on the laws of the state in which a partner-physician practices, either earned directly from professional fees or through the purchase of accounts receivable. In Texas, we engage physicians through entities exempt from Texas corporate practice of medicine laws that directly earn professional fees for partner-physician services and, in turn, pay partner-physicians a reasonable fee for rendering those professional services. In other states, we manage our partner-physicians’ practices and purchase the accounts receivable at a discount of those practices through accounts receivable purchase agreements, consistent with the laws in those states. The revenues generated from certain accounts receivables purchased from third parties in the ordinary course of business represents our factoring revenues.

**Seasonality of the Business**

The surgical segment of the healthcare industry tends to be impacted by seasonality because most benefit plans reset on a calendar year basis. As patients utilize and reduce their remaining deductible, Nobilis Facilities typically experience an increase in volume throughout the year, with the biggest impact coming in the fourth quarter. Historically, approximately 35% - 40% of our annual revenues have been recognized in the fourth quarter.

**Operating Environment**

The Medical Segment depends primarily upon third-party reimbursement from private insurers to pay for substantially all of the services rendered to our patients. The majority of the revenues attributable to the Medical Segment are from reimbursement to the Nobilis Hospitals and Nobilis ASCs as “out-of-network” providers. This means the Nobilis Facilities are not contracted with a major medical insurer as an “in-network” participant. Participation in such networks offer the benefit of larger patient populations and defined, predictable payment rates. The reimbursement to in-network providers, however, is typically far less than that paid to out of network providers. To a far lesser degree, the Nobilis Facilities earn fees from governmental payor programs such as Medicare. For the twelve months ended December 31, 2017 and 2016, we derived approximately 1.2% and 0.4% for the respective periods of our Medical Segment’s net revenues from governmental healthcare programs, primarily Medicare and managed Medicare programs, and the remainder from a wide mix of commercial payers and patient co-pays, coinsurance, and deductibles.

We receive a relatively small amount of revenue from Medicare. We also receive a relatively small portion of revenue directly from uninsured patients, who pay out of pocket for the services they receive.

Insured patients are responsible for services not covered by their health insurance plans, deductibles, co-payments and co-insurance obligations under their plans. The amount of these deductibles, co-payments and co-insurance obligations has increased in recent years but does not represent a material component of the revenue generated by the Nobilis Facilities. The surgical center fees of the Nobilis Facilities are generated by the physician limited partners and the other physicians who utilize the Nobilis Facilities to provide services.

**Revenue Model and Case Mix**

Revenues earned by the Nobilis Facilities vary depending on the procedures performed. For every medical procedure performed there are usually three separately invoiced patient billings:

- the surgical center fee for the use of infrastructure, surgical equipment, nursing staff, non-surgical professional services, supplies, and other support services, which is earned by the Nobilis Facilities;
- the professional fee, which is separately earned, billed, and collected by the physician performing the procedure, separate and apart from the fees charged by the Nobilis Facilities; and
- the anesthesiology fee, which is separately earned, billed, and collected by the anesthesia provider, separate and apart from the fees charged by the Nobilis Facilities and the physicians.

Overall facility revenue depends on procedure volume, case mix, and payment rates of the respective payors.

**Consolidated Statements of Income**
**Years-Ended December 31, 2017 and 2016**
**( *in thousands* )**

| | Years ended December 31, 2017 | Years ended December 31, 2016 |
|---|---|---|
| Revenues: | | |
| Patient and net professional fees | $ 282,240 | $ 264,211 |
| Contracted marketing revenues | 8,208 | 13,346 |
| Factoring revenues | 9,269 | 8,187 |
| Total revenues | 299,717 | 285,744 |
| Operating expenses: | | |
| Salaries and benefits | 63,809 | 52,774 |
| Drugs and supplies | 48,876 | 57,011 |
| General and administrative | 124,024 | 126,848 |
| Bad debt expense (recovery), net | 2,402 | (385) |
| Depreciation and amortization | 11,260 | 8,539 |
| Total operating expenses | 250,371 | 244,787 |
| Corporate expenses: | | |
| Salaries and benefits | 11,706 | 6,974 |
| General and administrative | 12,839 | 18,897 |
| Legal expenses | 2,149 | 4,755 |
| Depreciation | 343 | 293 |
| Total corporate expenses | 27,037 | 30,919 |
| Income from operations | 22,309 | 10,038 |
| Other expense (income): | | |
| Change in fair value of warrant and stock option derivative liabilities | (432) | (2,580) |
| Interest expense | 6,007 | 3,999 |
| Other (income) expense, net | (6,547) | (2,970) |
| Total other expense (income) | (972) | (1,551) |
| Income before income taxes and noncontrolling interests | 23,281 | 11,589 |
| Income tax expense | 13,000 | 4,487 |
| Net income | $ 10,281 | $ 7,102 |

*Revenues*

Total revenues for the twelve months ended December 31, 2017, totaled $299.7 million , an increase of $14.0 million or 4.9% , compared to $285.7 million in the prior corresponding period. Total cases decreased by 1,184 to 18,757 cases or 5.9 %, compared to 19,941 cases in the prior corresponding period. Medical Segment revenues increased by $17.4 million to $282.0 million or 6.6% , compared to $264.6 million in the prior corresponding period, while the Marketing Segment partially offset this increase with a decrease of $3.4 million .

*Salaries and Benefits*

Operating salaries and benefits for the twelve months ended December 31, 2017, totaled $63.8 million , an increase of $11.0 million or 20.9% , compared to $52.8 million in the prior corresponding period. The Medical Segment increased by $11.3 million or 26.4% , while the Marketing Segment decreased $0.3 million or 1.5% , from the prior corresponding period.

*Drugs and Supplies*

Drugs and supplies expense in our Medical Segment for the twelve months ended December 31, 2017, totaled $48.9 million , a decrease of $8.1 million or 14.3% , compared to $57.0 million in the prior corresponding period.

*General and Administrative*

Operating general and administrative expense for twelve months ended December 31, 2017, totaled $124.0 million , a decrease of $2.8 million or 2.2%, compared to $126.8 million in the prior corresponding period. The Medical Segment accounted for $2.4 million of the decrease.

*Depreciation and Amortization*

Operating depreciation and amortization for the twelve months ended December 31, 2017, totaled $11.3 million , an increase of $2.7 million or 31.9% , compared to $8.5 million in the prior corresponding period. This increase is primarily due to the additional depreciation expense incurred related to acquired equipment and intangible assets through acquisitions of AZ Vein, HVC, and DeRosa within our Medical Segment, as well as accelerated leasehold improvement depreciation related to our Marketing Segment, as a result of moving office locations.

*Total Corporate Costs*

To illustrate our operational efficiency, corporate costs are presented separate of operating expenses of the revenue generating facilities. Corporate costs totaled $27.0 million , a decrease of $3.9 million or 12.6% , compared to $30.9 million in the prior corresponding period.

Salaries and benefits for the twelve months ended December 31, 2017, totaled $11.7 million , an increase of $4.7 million or 67.9% , compared to $7.0 million in the prior corresponding period. The increase is primarily due to the hiring of additional corporate staff in 2017 and later half of 2016 related to accounting, finance, information technology, and new corporate employees through our acquisitions of AZ Vein, HVC, and DeRosa.

General and administrative expenses for the twelve months ended December 31, 2017, totaled $12.8 million , a decrease of $6.1 million or 32.1% , compared to $18.9 million in the prior corresponding period. The decrease in general and administrative expense was primarily attributable to a decline in share based compensation expense related to forfeitures of previously issued options, accounting fees, and insurance costs.

Legal expenses for the twelve months ended December 31, 2017, totaled $2.1 million , a decrease of $2.6 million or 54.8% , compared to $4.8 million in the prior corresponding period. The decrease in legal expenses was attributable to reduced litigation.

Overall, corporate general and administrative expense reductions are primarily the result of the Company's continuous efforts to cut costs.

*Other Expense (Income)*

For the twelve months ended December 31, 2017, the Company recognized $1.0 million of other income compared to $1.6 million of other income in the prior corresponding period. Interest expense increased $2.0 million to $6.0 million as a result of an average increase in borrowings and amortization of debt issuance costs. Refer to the liquidity section for more information about our credit facility. In addition to interest expense, change in warrant and stock option derivative liability resulted in a decrease of $2.1 million in other income.

The warrants and options have exercise prices denominated in Canadian dollars and as such may not be considered indexed to our stock which is valued in U.S. dollars and therefore recorded as derivative liabilities. Change in fair value of warrant and stock option derivative liabilities are a result of adjusting the estimated fair value at the end of the period, using the Black-Scholes Model. All of the warrants previously issued expired in first half of 2017.

During our annual impairment test of indefinite lived intangible assets, it was determined tradenames related to our Medical Segment and Marketing Segment were impaired for $0.9 million , and $0.6 million , respectively, in the fourth quarter of 2017. The Company used the relief of royalty method under the income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate and a discount rate applied to the forecast revenue stream. The impairments are within other expense in our statement of income.

Lastly, in February 2018, subsequent to the reporting period, the Company entered into a settlement agreement in connection with contract disputes that arose during the year with the sellers of AZ Vein. This litigation settlement resulted in a reduction in liabilities of $3.5 million as of December 31, 2017. The derecognition of these liabilities is included within other income in our consolidated statements of income for the year ended December 31, 2017.

*Income Tax Expense, Net*

The net tax expense for the twelve months ended December 31, 2017 was $13.0 million, compared to a net tax expense of $4.5 million in the prior corresponding period. The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 35% to 21%. In accordance with ASC 740, the impact of a change in tax law is recorded in the period of enactment. Consequently, the Company has recorded a tax expense of $6.2 million, primarily due to a re-measurement of deferred tax assets and liabilities at December 31, 2017. For the twelve months ended December 31, 2017, the effective tax rate differs from the annual tax rate primarily due to federal corporate rate reduction, state income taxes, Canada's PTBI, and noncontrolling interests. The Company's state tax expense was $1.3 million for the twelve months ended December 31, 2017. Our effective tax rate during the twelve months ended December 31, 2017 was 55.8%. The effective tax rate for 2017 net of the Tax Cuts and Jobs Act impact for the twelve months ended December 31, 2017 was 29.4%.

*Noncontrolling Interest*

Net income attributable to noncontrolling interests are based on ownership percentages in the Nobilis Facilities that are owned by third parties.

***MEDICAL SEGMENT***

**REVENUES**

The following table sets out our comparable changes in Medical Segment revenues and case volume for our facilities as of the twelve months ended December 31, 2017 and 2016 ( *in thousands, except case and per case data* ):

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | Revenue *(in thousands)* | | Number of Cases (1) | | Revenue *per Case (2)* | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Hospitals | $ 204,686 | $ 211,953 | 10,393 | 11,150 | $ 19,695 | $ 19,009 |
| ASCs | 41,782 | 39,846 | 7,458 | 7,829 | 5,602 | 5,090 |
| Ancillary services | 22,686 | 10,019 | — | — | — | — |
| Clinic | 12,888 | 2,824 | — | — | — | — |
| Total | $ 282,042 | $ 264,642 | 17,851 | 18,979 | $ 15,800 | $ 13,944 |

Notes

(1) This table refers to all cases performed, regardless of their contribution to revenue.

(2) Calculated by dividing revenues by the number of cases.

*Revenues*

Revenues for the Medical Segment increased by $17.4 million to $282.0 million or 6.6% , compared to $264.6 million in the prior corresponding period. Revenues increased primarily due to the acquisition of AZ Vein, HVC, DeRosa, the acquisition of a surgical license by Scottsdale Liberty Hospital to perform higher acuity cases receiving larger reimbursements in the current period, and a $12.7 million increase in ancillary services. The increase in Medical Segment revenues was partially offset by a $7.3 million loss in hospital revenue compared to the prior corresponding period. Two hospitals experienced a turnover of physicians that were large contributors to facility revenue based on the acuity of the cases they normally perform. The Company has managed to mitigate this loss by continuing to backfill these higher acuity cases from the Marketing Segment and continuing to develop new relationships through the efforts of its sales force. In addition, the devastation caused by Hurricane Harvey in the Greater Houston Area impacted the Company's operations during the third quarter at ten Nobilis Facilities in Southeast Texas. The market recovery time from this disaster extended into the fourth quarter.

*Salaries and Benefits*

Salaries and benefits for the Medical Segment increased by $11.3 million to $54.3 million or 26.4% , compared to $42.9 million in the prior corresponding period. Operating salaries and benefits increased primarily due to additional headcount related to organic growth of our ancillary services and new employees acquired during the AZ Vein, HVC, and DeRosa acquisitions. Excluding the acquisitions of AZ Vein, HVC, and DeRosa, the Medical Segment operating salaries and benefits decreased by $1.7 million to $40.3 million, or 4.1%, compared to $42.0 million in the prior corresponding period.

*Drugs and Supplies*

Drugs and supplies expense for the Medical Segment decreased by $8.1 million to $48.9 million or 14.3% , compared to $57.0 million in the prior corresponding period. The decrease in drugs and supplies is a result of the decrease in volumes compared to the prior corresponding period. However, the Company experienced margin improvement as a result of increased utilization of GPO (Group Purchasing Organization) vendors, other national supply contracts negotiated by the Company and an increase in the utilization of surplus supply vendors.

Management measures the efficiency of drugs and supplies spend as a percent of associated revenues.

*General and Administrative*

General and administrative expense for the Medical Segment decreased by $1.7 million to $122.0 million or 1.3%, compared to $123.7 million in the prior corresponding period. The decrease in the Medical Segment general and administrative expense is primarily due to efficient cost management of sales expenses.

For the twelve months ended December 31, 2017, marketing expenses allocated to the Medical Segment decreased by $0.7 million to $27.4 million, compared to $28.1 million in the prior corresponding period. These marketing costs are allocated from our Marketing Segment for cases performed at Nobilis Facilities. As a result, there was a decrease in general and administrative costs within our Marketing Segment, discussed later herein. Our number of cases decreased year over year, resulting in smaller allocations of marketing expense from our Marketing Segment to our Medical Segment. In addition, the Marketing segment began to implement efficiencies in cost per acquisition with the hiring of key staff within the department and lowering overall expenses to be allocated to the Nobilis Facilities.

***MARKETING SEGMENT***

**REVENUES**

The following table set out our comparable changes in Marketing Segment revenue and case volumes for our facilities as of the twelve months ended December 31, 2017 and 2016 ( *in thousands, except cases and per case data* ):

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | Revenues ( *in thousands* ) | | Number of Cases (1) | | Revenues *per Case (2)* | |
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Marketing | $ 17,675 | $ 21,102 | 906 | 962 | $ 19,509 | $ 21,936 |
| Total | $ 17,675 | $ 21,102 | 906 | 962 | $ 19,509 | $ 21,936 |

Notes

(1) This table refers to all cases performed, regardless of their contribution to revenue.

(2) Calculated by dividing revenues by the number of cases.

*Revenues*

Revenues for the Marketing Segment decreased by $3.4 million to $17.7 million or 16.1% , compared to $21.1 million in the prior corresponding period. This decrease in the revenues within the Marketing Segment is primarily related to lower case count with outside facilities.

*Salaries and Benefits*

Salaries and benefits for the Marketing Segment decreased by $0.2 million to $9.7 million or 1.5% , compared to $9.8 million in the prior corresponding period. The decrease is primarily related to a reduction in headcount during the second quarter of 2017.

*General and Administrative*

General and administrative expense for the Marketing Segment decreased by $0.9 million to $1.9 million or 31.8%, compared to $2.8 million in the prior corresponding period. Marketing costs are allocated to our Medical Segment for cases performed at Nobilis Facilities. The addition of key staff within the Marketing Segment has assisted the Company to implement cost efficiencies per acquisition.

**Consolidated Statements of Income**
**Years-Ended December 31, 2016 and 2015**
**( *in thousands* )**

| | Years ended December 31, | |
|---|---|---|
| | **2016** | **2015** |
| Revenues: | | |
| Patient and net professional fees | $ 264,211 | $ 209,446 |
| Contracted marketing revenues | 13,346 | 13,106 |
| Factoring revenues | 8,187 | 6,664 |
| Total revenues | 285,744 | 229,216 |
| Operating expenses: | | |
| Salaries and benefits | 52,774 | 40,845 |
| Drugs and supplies | 57,011 | 37,365 |
| General and administrative | 126,848 | 79,422 |
| Bad debt expense (recovery), net | (385) | 3,557 |
| Depreciation and amortization | 8,539 | 4,531 |
| Total operating expenses | 244,787 | 165,720 |
| Corporate expenses: | | |
| Salaries and benefits | 6,974 | 6,597 |
| General and administrative | 18,897 | 22,648 |
| Legal expenses | 4,755 | 2,445 |
| Depreciation | 293 | 156 |
| Total corporate expenses | 30,919 | 31,846 |
| Income from operations | 10,038 | 31,650 |
| Other expense (income): | | |
| Change in fair value of warrant and stock option derivative liabilities | (2,580) | (8,985) |
| Interest expense | 3,999 | 1,597 |
| Bargain purchase gain | — | (1,733) |
| Other (income) expense, net | (2,970) | 34 |
| Total other expense (income) | (1,551) | (9,087) |
| Income before income taxes and noncontrolling interests | 11,589 | 40,737 |
| Income tax expense (benefit) | 4,487 | (23,196) |
| Net income | $ 7,102 | $ 63,933 |

*Revenues*

Total revenues for the year ended December 31, 2016, totaled $285.7 million, an increase of $56.5 million or 24.7%, compared to $229.2 million in the prior corresponding period. The Company's consolidated cases increased 2,127 or 11.9% versus the prior corresponding period. Medical Segment revenues increased by $58.9 million to $264.6 million, or 28.6% compared to $205.7 million from the prior corresponding period, while the Marketing Segment offset this increase by $2.4 million.

*Salaries and Benefits*

Operating salaries and benefits for the year ended December 31, 2016, totaled $52.8 million, an increase of $11.9 million, or 29.2%, compared to $40.8 million in the prior corresponding period. The Medical Segment increased by $12.2 million, or 39.7%, and the Marketing Segment decreased $0.3 million period over period.

*Drugs and Supplies*

Drugs and supplies expense for the year ended December 31, 2016, totaled $57.0 million, an increase of $19.6 million or 52.6% compared to $37.4 million in the prior corresponding period. The Medical Segment increased by $18.1 million or 50.4%, while the Marketing Segment increased $1.5 million period over period.

*General and Administrative*

Operating general and administrative expense for year ended December 31, 2016, totaled $126.8 million, an increase of $47.4 million, or 59.7%, compared to $79.4 million in the prior corresponding period. The Medical Segment accounted for $48.6 million of the increase, offset by a decrease of $1.2 million in the Marketing Segment.

*Depreciation and Amortization*

Operating depreciation for the year ended December 31, 2016, totaled $8.5 million, an increase of $4.0 million or 88.5%, compared to $4.5 million the prior corresponding period. This increase is primarily due to an increase in property and equipment acquired through our purchase of three hospitals and AZ Vein, which included 4 ASCs and 5 clinics.

*Total Corporate Costs*

Corporate costs totaled $30.9 million, a decrease of $0.9 million or 2.9%, compared to $31.8 million in the prior corresponding period. Salaries and benefits for the year ended December 31, 2016, totaled $7.0 million, an increase of $0.4 million or 5.7%, compared to $6.6 million from the prior corresponding period. The $0.4 million increase is due to the hiring of additional corporate staff in 2016 related to accounting, finance and information technology. Legal expenses for the year ended December 31, 2016, totaled $4.8 million, an increase of $2.3 million or 94.5%, compared to $2.4 million from the prior corresponding period. The increase in legal expenses was attributable to costs related to a legal review of our recent restatements, acquisition and litigation expenses. General and administrative expenses for the year ended December 31, 2016, totaled $18.9 million, a decrease of $3.8 million or 16.6%, compared to $22.6 million in the prior corresponding period. In 2015, an accelerated vesting of senior executive share-based compensation related to a change of positions within the Company and additional stock-based compensation raised prior year corporate general and administrative expenses. The current year decrease in general and administrative expense was primarily attributable to a decline in non-cash compensation expense for the year ended December 31, 2016.

*Other Expense (Income)*

For the year ended December 31, 2016, the Company recognized $1.6 million of other income compared to $9.1 million of other income in prior year. The change primarily related to a change in warrant and stock option derivative liability of $6.4 million. These warrants and options have exercise prices denominated in Canadian dollars and as such may not be considered indexed to our stock which is valued in U.S. dollars and therefore recorded as derivative liabilities. Change in fair value of warrant and stock option derivative liabilities are a result of adjusting the estimated fair value at the end of the period, using the Black-Scholes Model.

There was a $1.7 million bargain purchase gain in the prior period related the acquisition of one of our facilities.

Lastly, interest expense increased $2.4 million as a result of average increase in borrowings, amortization of debt issuance costs and $0.8 million write off of deferred financing costs.

*Income Tax Expense (Benefit), Net*

The net tax expense for the year ended December 31, 2016 was $4.5 million, compared to $23.2 million benefit from the prior corresponding period. The temporary differences attributable to the projected taxable loss include goodwill amortization, allowance for bad debt and other accrued liabilities. For the year ended December 31, 2016, the effective tax rate differs from the statutory tax rate primarily due to equity compensation, Canada's loss that we do not expect to realize, and noncontrolling interests. The Company’s state tax expense was $0.8 million for the year ended December 31, 2016. Our effective tax rate during the year ended December 31, 2016 was approximately 38.7%.

Net income attributable to noncontrolling interests are based on ownership percentages in the Nobilis Facilities that are owned by third parties.

***MEDICAL SEGMENT***

**REVENUES**

The following table sets out our comparable changes in Medical Segment revenue and case volume for our facilities as of the year ended December 31, 2016 and 2015 ( *in thousands, except case and per case data* ):

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | Revenue *(in thousands)* | | Number of Cases (1) | | Revenue *per Case (2)* | |
| | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Hospitals | $ 211,953 | $ 126,567 | 11,150 | 5,356 | $ 19,009 | $ 23,631 |
| ASCs and clinics | 42,670 | 76,880 | 7,829 | 11,225 | 5,450 | 6,849 |
| Ancillary services | 10,019 | 2,283 | — | — | — | — |
| Total | $ 264,642 | $ 205,730 | 18,979 | 16,581 | $ 13,944 | $ 12,408 |

Notes

(1) This table refers to all cases performed, regardless of their contribution to service revenue.

(2) Calculated by dividing service revenues by the number of cases.

*Revenues*

Revenues for the Medical Segment increased by $58.9 million to $264.6 million, or 28.6% compared to $205.7 million from the prior corresponding period. Net service patient revenues increased $1,536 per case period over period. Revenues increased primarily due to a 14.5% increase in the Medical Segment's case volume, and higher acuity cases performed in hospitals receiving larger reimbursements.

*Salaries and Benefits*

Salaries and Benefits for the Medical Segment increased by $12.2 million to $42.9 million, or 39.7% compared to $30.7 million from the prior corresponding period. Operating salaries and benefits increased primarily due to the acquisition of hospitals in 2015, AZ Vein, and the additional facility resources required to accommodate the increase in cases over prior year.

*Drugs and Supplies*

Drugs and supplies expense for the Medical Segment increased by $18.1 million to $54.1 million, or 50.4% compared to $36.0 million from the prior corresponding period. Drugs and supplies increased compared to the prior corresponding period primarily due to the acquisition of three hospitals in 2015. Hospitals require higher drugs and supply costs than ASCs as a result of performing more complex and higher acuity cases.

*General and Administrative*

General and administrative expense for the Medical Segment increased by $48.6 million to $123.7 million, or 64.7% compared to $75.1 million. The increase in the Medical Segment is due to an increase in marketing expenses, and operations associated with Medical Segment facilities, primarily due to the acquisition of hospitals in 2015, AZ Vein, and expenses associated with our new lab service line. In addition, during 2016 we increased our physician marketing expense by adding several new physicians to our direct-to-consumer marketing program in an effort to drive additional cases.

For the year ended December 31, 2016, marketing expenses allocated to the Medical Segment increased by $8.5 million to $28.1 million, compared to $19.6 million for the corresponding period. These marketing cost are allocated from our Marketing Segment for cases performed at Nobilis Facilities. The acquisition of hospitals allows us to send more cases to owned facilities, resulting in larger allocations of marketing expense from our Marketing Segment to our Medical Segment. As a result, there was a decrease in general and administrative costs within our Marketing Segment, discussed later herein.

*MARKETING SEGMENT*

**REVENUES**

The following tables set out our comparable changes in Marketing Segment revenue and case volumes for our facilities as of the year ended December 31, 2016 and 2015 ( *in thousands, except cases and per case data* ):

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | Revenue (in thousands) | | Number of Cases (1) | | Revenue per Case (2) | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Marketing | $ 21,102 | $ 23,486 | 962 | 1,233 | $ 21,936 | $ 19,048 |
| Total | $ 21,102 | $ 23,486 | 962 | 1,233 | $ 21,936 | $ 19,048 |

Notes

(1) This table refers to all cases performed, regardless of their contribution to service revenue.

(2) Calculated by dividing service revenues by the number of cases.

*Revenues*

Revenues for the Marketing Segment decreased by $2.4 million to $21.1 million, or 10.2% compared to $23.5 million from the prior corresponding period. Marketing Segment revenues decreased primarily due to a decrease of 271 cases. During 2016 management drove more cases to Nobilis owned facilities in the Medical Segment. Revenues increased $2,888 per case period over period, primarily attributable to higher concentrations of OON cases.

*Salaries and Benefits*

Salaries and benefits for the Marketing Segment decreased $0.3 million to $9.8 million compared to $10.1 million from the prior period primarily due to certain personnel leaving the Company in 2016.

*General and Administrative*

General and administrative expense for the Marketing Segment decreased by $1.6 million compared to $4.3 million for the corresponding period. The decrease in the Marketing Segment's general and administrative expense is attributable to driving additional cases to our Nobilis Facilities.

**Liquidity, Capital Resources and Financial Condition**

**Balance Sheet**

The Company experienced material variances in certain balance sheet accounts as discussed herein.

*Trade Accounts Receivable, net*

Accounts receivable as of December 31, 2017 , totaled $144.5 million , an increase of $19.6 million or 15.7% , compared to $125.0 million for the year-ended December 31, 2016 . The increase is attributable to a longer collection cycle on hospital accounts receivable and our 2017 business acquisitions. Approximately 29% and 37% of annual revenues were recognized in the fourth quarter of 2017 and 2016, respectively. The decrease from our average range of 35% - 40% of annual revenues being recognized in the fourth quarter in seasonality is primarily related to adding clinics to our portfolio which smoothed revenues throughout the year, as well as a decrease in 2017 related to Hurricane Harvey where the market was significantly impacted in the Greater Houston area.

**Liquidity and Capital Resources**

We are dependent upon cash generated from our operations, which is the major source of financing for our operations and for meeting our contractual obligations. We currently believe we have adequate liquidity to fund operations during the near term through the generation of operating cash flows, cash on hand and access to our senior secured revolving credit facility provided under the loan agreement. Our ability to borrow funds under this loan agreement is subject to, among other things, the financial viability of the participating financial institutions. While we do not anticipate any of our current lenders defaulting on their obligations, we are unable to provide assurance that any particular lender will not default at a future date.

Cash at December 31, 2017 and 2016 were $22.5 million and $24.6 million , respectively.

As of December 31, 2017 , net cash provided by operating activities increased by $24.8 million from the prior year. This increase was primarily attributable to increased revenues and improved operating margins in 2017. Net cash used for investing activities increased $44.2 million from the prior year which was primarily attributable to the purchase of Elite on November 15, 2017. Net cash used for financing activities increased by $8.4 million from the prior year primarily due to proceeds from the Term B Loan further discussed below.

As of December 31, 2017 , the Company had consolidated net working capital of $97.6 million compared to $98.0 million as of December 31, 2016 .

**Debt**

*BBVA Credit Agreement*

On October 28, 2016 the Company entered into a BBVA Credit Agreement by and among the Company, certain subsidiaries of the Company parties thereto, the lenders from time to time parties thereto (the “Lenders”) with BBVA Compass Bank as Administrative Agent for the lending group.

The principal amount of the term loan (the “Term Loan A”) pursuant to the BBVA Credit Agreement is $52.5 million, which bears interest on the outstanding principal amount thereof at a rate of the then applicable LIBOR, plus an applicable margin of 4.75%. The effective rate for the Term Loan as of December 31, 2017 was 6.44%. All outstanding principal on the Term Loan under the Credit Agreement is due and payable on October 28, 2021.

The revolving credit facility is $30.0 million (the “Revolver”), which bears interest at the then applicable Interest Rate. The effective rate for the Revolver as of December 31, 2017 was 6.11%. The maturity date of the Revolver is October 28, 2021. Additionally, Borrower may request additional commitments from the Lenders in the maximum amount of $50 million, either by increasing the Revolver or creating new term loans. The Company executed Amendment No. 2 to the BBVA Credit agreement and exercised its option to extend our commitments. The Company created ("Term Loan B") and added $50 million in debt on November 15, 2017 (discussed further below). As of December 31, 2017, the outstanding balance on Term Loan A, Term Loan B and the Revolver were $50.5 million, $50.0 million and $18.0 million, respectively.

The Loan Agreement also contains customary events of default, including, among others, the failure by the Borrower to make a payment of principal or interest due under the BBVA Credit Agreement, the making of a materially false or misleading representation or warranty by any loan party, the failure by the Borrower to perform or observe certain covenants in the BBVA Credit Agreement, a change of control, and the occurrence of certain cross-defaults, subject to customary notice and cure provisions. Upon the occurrence of an event of default, and so long as such event of default is continuing, the Administrative Agent could declare the amounts outstanding under the BBVA Credit Agreement due and payable.

The Company entered into Amendment No. 1 to BBVA Credit Agreement and Waiver, dated as of March 3, 2017, by and among NHA, certain subsidiaries of the Company party thereto, Compass Bank, and other financial institutions (the "Amendment"). The purpose of the Amendment was to (i) modify the definition of “Permitted Acquisition” to require Lender approval and consent for any acquisition which is closing during the 2017 fiscal year; (ii) modify certain financial definitions and covenants, including, but not limited to, an increase to the maximum Consolidated Leverage Ratio to 3.75 to 1.00 for the period beginning September 30, 2016 and ending September 30, 2017, and an increase to the Consolidated Fixed Charge Coverage Ratio to 1.15 to 1.00 for the period beginning September 30, 2016 and ending June 30, 2017; (iii) waive the Pro Forma Leverage Requirement in connection with the previously reported HVC; and (iv) provide each Lender’s consent to the HHVC acquisition. The Amendment also contained a limited waiver of a specified event of default.

The Company entered into Amendment No. 2 to BBVA Credit Agreement, dated November 15, 2017, by and among Northstar Healthcare Acquisitions, L.L.C., a Delaware limited liability company and wholly owned subsidiary of Nobilis Health Corp., and Northstar Healthcare Holdings, Inc., a Delaware corporation, entered into the Amendment and certain subsidiaries of the Company. The purpose of the Amendment was to finance the aforementioned Elite acquisition, and thereby increased the aggregate principal amount by $50.0 million through issuance of the Term Loan B. Term Loan B bears interest on the outstanding principal amount thereof at a rate of the then applicable LIBOR, plus an applicable margin of 6.75%. The effective rate for the Term Loan as of December 31, 2017 was 8.17%. All outstanding principal on the Term Loan under the Credit Agreement matures on November 15, 2022.

The BBVA Compass Credit Agreement contains three financial covenants that are tested beginning on December 31, 2017. The consolidated leverage ratio may not exceed (i) 4.00 to 1.00 as of the last day of any fiscal quarter from December 31, 2017 through and including September 30, 2018 (ii) 3.75 to 1.00 from December 31, 2018 through and including September 30, 2019 (iii) 3.50 to 1.00 from December 31, 2019 and thereafter, subject to covenant holidays upon the occurrence of certain conditions. The consolidated modified fixed charge ratio must be at a minimum (i) 1.25 to 1.00 as of the last day of any fiscal quarter from September 30, 2017 through and including December 31, 2018 (ii) 1.30 to 1.00 from March 31, 2019 through and including December 31, 2019 (iii) 1.35 to 1.00 from March 31, 2020 and thereafter, subject to covenant holidays upon the occurrence of certain conditions.The consolidated fixed charge ratio must be at a minimum (i) 1.25 to 1.00 as of the last day of any fiscal quarter from September 30, 2017 through and including December 31, 2017 (ii) 1.10 to 1.00 from March 31, 2018 through and including December 31, 2019 (iii) 1.35 to 1.00 from March 31, 2020 and thereafter, subject to covenant holidays upon the occurrence of certain conditions.

As of December 31, 2017, the Company was in compliance with its covenants.

Loan origination fees are deferred and the net amount is amortized over the contractual life of the related loans.

Convertible Promissory Note - AZ Vein

In conjunction with our purchase of AZ Vein, we entered into a $2.25 million convertible promissory note. The convertible promissory note bears interest at 5% per annum and matures on the date that is 36 months from closing. The convertible promissory note (outstanding principal but excluding accrued and unpaid interest) can be converted into common shares of NHC (the "Conversion Shares"), at the sole discretion of NHC and NHA, on the maturity date. The number of Conversion Shares will be based on a price per share equal to the quotient obtained by dividing the conversion amount by the volume weighted average price of the common shares on the New York Stock Exchange (NYSE) in the trailing ten trading days prior to the maturity date. There are no pre-payment penalties.

In February 2018, subsequent to the reporting period, the Company entered into a settlement agreement in connection with contract disputes that arose during the year with the sellers of the Company's acquisition of AZ Vein. This settlement resulted in the derecognition of certain liabilities, including the convertible note of $2.25 million discussed herein. See Note 3 - Business Acquisitions in Item 8. of this Report on Form 10-K herein for more information.

Convertible Promissory Note - HVC

In conjunction with our purchase of HVC, we entered into a $5.0 million convertible promissory note. The convertible promissory matures on March 8, 2019, bears interest at 5% per annum and is payable in two equal installments over a two-year period. The convertible promissory note (outstanding principal but excluding accrued and unpaid interest) can be converted into common shares of the Company (the "Conversion Shares"), at the sole discretion of the Company, on the maturity date. The number of Conversion Shares will be based on a price per share equal to the quotient obtained by dividing the conversion amount by the volume weighted average price of the common shares on the NYSE in the trailing ten trading days prior to the maturity date. There are no pre-payment penalties.

Convertible Promissory Note - Elite

In conjunction with our purchase of Elite, we entered into a $3.5 million convertible promissory note. The convertible promissory note matures on November 15, 2019, bears interest at 6.75% per annum and is payable in three installments over a two year period. The interest payments are due quarterly. The promissory note (outstanding principal but excluding accrued and unpaid interest) may be converted into common shares of the Company (the "Conversion Shares"), only upon the occurrence of both (i) default by Maker, as defined in the promissory note, and (ii) the election of the Sellers as defined in the promissory note. The number of Conversion Shares will be based on a price per share equal to the quotient obtained by dividing the conversion amount by the lesser of (i) the closing bid price of the common shares on the trading day immediately prior to the conversion date, or (ii) the volume weighted average price of the common shares on NYSE in the trailing ten trading days prior to the maturity date. There are no pre-payment penalties.

*Contractual Obligations*

As described in Note 10 - Accrued Liabilities and Other, Note 12 - Debt , Note 13 - Operating Leases and Note 14 - Capital Leases of the Notes to Consolidated Financial Statements, at December 31, 2017 , we had certain cash obligations, which are due as follows ( *in thousands* ):

| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|
| Debt | $ 126,988 | $ 10,032 | $ 14,500 | $ 102,456 | $ — |
| Interest on long-term debt | 35,755 | 8,142 | 14,963 | 12,650 | — |
| Additional equity interest purchase obligations in conjunction with Elite acquisition | 4,389 | 4,389 | — | — | — |
| Capital leases | 19,876 | 4,239 | 5,758 | 4,209 | 5,670 |
| Operating leases | 121,116 | 15,848 | 27,728 | 22,063 | 55,477 |
| Total | $ 308,124 | $ 42,650 | $ 62,949 | $ 141,378 | $ 61,147 |

**Off-Balance Sheet Arrangements**

The Company’s off-balance sheet arrangements include the operating leases and unconditional purchase commitments disclosed in the “Liquidity and Capital Resources” section in the contractual obligations table above.

**Item 7a. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to market risk primarily from exposure to changes in interest rates based on our financing activities. Our term loans and revolving credit lines carry terms with both fixed rate and variable rate debt to manage our exposures to changes in interest rates. Our variable debt instruments are primarily indexed to the prime rate or LIBOR. Interest rate changes would result in gains or losses in the market value of our fixed rate debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Based upon our indebtedness at December 31, 2017 , a 100 basis point interest rate change would impact our net earnings and cash flow by approximately $1.1 million annually. Although there can be no assurances that interest rates will not change significantly, we do not expect changes in interest rates to have a material effect on our net earnings or cash flows in 2018.

**Item 8. Financial Statements and Supplementary Data**

## Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Nobilis Health Corp.
Houston, Texas

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Nobilis Health Corp. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe Horwath LLP

We have served as the Company's auditor since 2015.

Dallas, Texas
March 12, 2018

**Nobilis Health Corp.**
**Consolidated Balance Sheets**
**December 31, 2017 and 2016**
*( in thousands, except share amounts )*

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash | $ 22,536 | $ 24,572 |
| Trade accounts receivable, net of allowance for bad debts of $2,598 and $750 at December 31, 2017 and 2016, respectively | 144,522 | 124,951 |
| Medical supplies | 3,356 | 4,468 |
| Prepaid expenses and other current assets | 14,472 | 10,083 |
| Total current assets | 184,886 | 164,074 |
| Property and equipment, net | 51,559 | 36,723 |
| Intangible assets, net | 65,990 | 19,618 |
| Goodwill | 116,072 | 62,018 |
| Deferred tax asset | 9,951 | 21,652 |
| Other long-term assets | 2,580 | 1,350 |
| Total Assets | $ 431,038 | $ 305,435 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities: | | |
| Trade accounts payable | $ 24,312 | $ 22,184 |
| Accrued liabilities | 35,393 | 30,145 |
| Current portion of capital leases | 3,249 | 3,985 |
| Current portion of long-term debt | 3,766 | 2,220 |
| Current portion of convertible promissory note | 4,250 | — |
| Current portion of warrant and stock option derivative liabilities | — | 3 |
| Other current liabilities | 16,324 | 7,561 |
| Total current liabilities | 87,294 | 66,098 |
| Lines of credit | 18,000 | 15,000 |
| Long-term capital leases, net of current portion | 12,667 | 12,387 |
| Long-term debt, net of current portion | 90,619 | 48,323 |
| Convertible promissory note, net of current portion | 4,250 | 2,250 |
| Warrant and stock option derivative liabilities, net of current portion | 384 | 899 |
| Other long-term liabilities | 3,036 | 3,999 |
| Total liabilities | 216,250 | 148,956 |
| Commitments and contingencies | | |
| Contingently redeemable noncontrolling interest | 17,161 | 14,304 |
| Shareholders' Equity: | | |
| Common shares, no par value, unlimited shares authorized, 78,183,802 and 77,805,014 shares issued and outstanding at December 31, 2017 and 2016, respectively | — | — |
| Additional paid in capital | 225,790 | 222,240 |
| Accumulated deficit | (75,245) | (79,042) |
| Total shareholders' equity attributable to Nobilis Health Corp. | 150,545 | 143,198 |
| Noncontrolling interests | 47,082 | (1,023) |
| Total shareholders' equity | 197,627 | 142,175 |
| Total Liabilities and Shareholders' Equity | $ 431,038 | $ 305,435 |

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

**Nobilis Health Corp.**
**Consolidated Statements of Income**
**Years-Ended December 31, 2017 and 2016 and 2015**
( *in thousands, except share and per share amounts* )

| | Years ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Revenues: | | | |
| Patient and net professional fees | $ 282,240 | $ 264,211 | $ 209,446 |
| Contracted marketing revenues | 8,208 | 13,346 | 13,106 |
| Factoring revenues | 9,269 | 8,187 | 6,664 |
| Total revenues | 299,717 | 285,744 | 229,216 |
| Operating expenses: | | | |
| Salaries and benefits | 63,809 | 52,774 | 40,845 |
| Drugs and supplies | 48,876 | 57,011 | 37,365 |
| General and administrative | 124,024 | 126,848 | 79,422 |
| Bad debt expense (recovery), net | 2,402 | (385) | 3,557 |
| Depreciation and amortization | 11,260 | 8,539 | 4,531 |
| Total operating expenses | 250,371 | 244,787 | 165,720 |
| Corporate expenses: | | | |
| Salaries and benefits | 11,706 | 6,974 | 6,597 |
| General and administrative | 12,839 | 18,897 | 22,648 |
| Legal expenses | 2,149 | 4,755 | 2,445 |
| Depreciation | 343 | 293 | 156 |
| Total corporate expenses | 27,037 | 30,919 | 31,846 |
| Income from operations | 22,309 | 10,038 | 31,650 |
| Other expense (income): | | | |
| Change in fair value of warrant and stock option derivative liabilities | (432) | (2,580) | (8,985) |
| Interest expense | 6,007 | 3,999 | 1,597 |
| Bargain purchase gain | — | — | (1,733) |
| Other (income) expense, net | (6,547) | (2,970) | 34 |
| Total other expense (income) | (972) | (1,551) | (9,087) |
| Income before income taxes and noncontrolling interests | 23,281 | 11,589 | 40,737 |
| Income tax expense (benefit) | 13,000 | 4,487 | (23,196) |
| Net income | 10,281 | 7,102 | 63,933 |
| Net income attributable to noncontrolling interests | 6,484 | 653 | 13,093 |
| Net income attributable to Nobilis Health Corp. | $ 3,797 | $ 6,449 | $ 50,840 |
| Net income per basic common share | $ 0.05 | $ 0.08 | $ 0.76 |
| Net income per fully diluted common share (treasury stock method) | $ 0.05 | $ 0.08 | $ 0.68 |
| Net income per fully diluted common share (if converted method) | $ 0.05 | $ 0.08 | N/A |
| Weighted average shares outstanding (basic) | 77,852,752 | 76,453,128 | 67,015,387 |
| Weighted average shares outstanding (fully diluted - treasury stock method) | 78,188,597 | 77,562,495 | 75,232,783 |
| Weighted average shares outstanding (fully diluted - if converted method) | 80,484,331 | 76,453,128 | N/A |

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

**Nobilis Health Corp.**
**Consolidated Statements of Changes in Equity**
**Years-Ended December 31, 2017 , 2016 and 2015**
(i *n thousands, except share amounts* )

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Shares** | **Additional Paid In Capital** | **Accumulated Deficit** | **Equity Attributable to Nobilis Health Corp.** | **Equity (Deficit) Attributable to Noncontrolling Interests** | **Total Equity** | **Contingently Redeemable Noncontrolling Interests** |
| BALANCE - January 1, 2015 | 59,418,227 | $ 176,356 | $ (136,687) | $ 39,669 | $ 4,133 | $ 43,802 | $ 12,867 |
| Net income | — | — | 50,840 | 50,840 | 2,226 | 53,066 | 10,867 |
| Deconsolidation of investment | — | (613) | 356 | (257) | 307 | 50 | — |
| Proceeds from private equity offering | 4,029,668 | 15,598 | — | 15,598 | — | 15,598 | — |
| Acquisition of Peak | 89,749 | 650 | — | 650 | — | 650 | — |
| Acquisition of Scottsdale Liberty | — | — | — | — | 1,532 | 1,532 | — |
| Athas settlement | 3,830,638 | (5,685) | — | (5,685) | — | (5,685) | — |
| Measurement period adjustments | — | — | — | — | 2,807 | 2,807 | — |
| Distributions to noncontrolling interests | — | — | — | — | (3,489) | (3,489) | (11,509) |
| Vesting of restricted stock | 2,725,000 | — | — | — | — | — | — |
| Reclassification of vested non-employee stock options | — | (1,531) | — | (1,531) | — | (1,531) | — |
| Exercise of stock warrants | 3,134,909 | 13,392 | — | 13,392 | — | 13,392 | — |
| Exercise of stock options | 447,788 | 521 | — | 521 | — | 521 | — |
| Share-based compensation, net | — | 13,139 | — | 13,139 | — | 13,139 | — |
| BALANCE - December 31, 2015 | 73,675,979 | 211,827 | (85,491) | 126,336 | 7,516 | 133,852 | 12,225 |
| Net income (loss) | — | — | 6,449 | 6,449 | (4,955) | 1,494 | 5,606 |
| Distributions to noncontrolling interests | — | — | — | — | (3,532) | (3,532) | (3,527) |
| Additional ownership Interest in subsidiary | — | 52 | — | 52 | (52) | — | — |
| AZ Vein share consideration | 750,000 | 2,250 | — | 2,250 | — | 2,250 | — |
| Vesting of restricted stock | 2,000,000 | — | — | — | — | — | — |
| Reclassification of vested non-employee stock options | — | (533) | — | (533) | — | (533) | — |
| Exercise of stock warrants | 95,285 | 130 | — | 130 | — | 130 | — |
| Exercise of stock options | 1,283,750 | 2,322 | — | 2,322 | — | 2,322 | — |
| Share-based compensation, net | — | 6,192 | — | 6,192 | — | 6,192 | — |
| BALANCE - December 31, 2016 | 77,805,014 | 222,240 | (79,042) | 143,198 | (1,023) | 142,175 | 14,304 |
| Net income | — | — | 3,797 | 3,797 | 3,627 | 7,424 | 2,857 |
| Distributions to noncontrolling interests | — | — | — | — | (2,646) | (2,646) | — |
| Acquisition of Elite | 378,788 | 500 | — | 500 | 47,124 | 47,624 | — |
| Share consideration for acquisition of Elite | — | 235 | — | 235 | — | 235 | — |
| Reclassification of vested non-employee stock options | — | 109 | — | 109 | — | 109 | — |
| Share-based compensation, net | — | 2,706 | — | 2,706 | — | 2,706 | — |
| BALANCE - December 31, 2017 | 78,183,802 | $ 225,790 | $ (75,245) | $ 150,545 | $ 47,082 | $ 197,627 | $ 17,161 |

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

**Nobilis Health Corp.**
**Consolidated Statements of Cash Flows**
**Years Ended December 31, 2017 , 2016 and 2015**
( *in thousands* )

| | Years ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | $ 10,281 | $ 7,102 | $ 63,933 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 11,603 | 8,832 | 4,687 |
| Provision (recoupment) for bad debts, net | 2,402 | (385) | 3,557 |
| Share-based compensation | 2,706 | 6,192 | 13,139 |
| Change in fair value of warrant and stock option derivative liabilities | (432) | (2,580) | (8,985) |
| Deferred income taxes | 11,701 | 3,383 | (25,035) |
| Impairment charges | 1,500 | 688 | 1,622 |
| Recoupment indemnified expenses | — | — | (1,700) |
| Gain on sale of property and equipment | — | (265) | — |
| Gain on derecognition of liabilities through settlement | (3,711) | — | — |
| Gain on bargain purchase of a business | — | — | (1,733) |
| Loss (earnings) from equity method investment | 108 | (938) | — |
| Amortization of deferred financing fees | 734 | 1,034 | 99 |
| Changes in operating assets and liabilities, net of assets acquired and liabilities assumed: | | | |
| Trade accounts receivable | (14,737) | (28,517) | (51,673) |
| Medical supplies | 1,407 | 216 | (1,469) |
| Prepaid expenses and other current assets | (4,042) | (7,106) | 6,966 |
| Other long-term assets | (219) | (6) | (402) |
| Trade accounts payable and accrued liabilities | 5,010 | 11,031 | 925 |
| Other current liabilities | 2,400 | 1,293 | 3,441 |
| Other long-term liabilities | (321) | 508 | (657) |
| Distributions from equity investments | — | 1,085 | — |
| Net cash provided by operating activities | 26,390 | 1,567 | 6,715 |
| | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property and equipment | (5,152) | (5,541) | (4,380) |
| Investment in associate | — | — | (138) |
| Purchase of equity method investment | — | (609) | — |
| Note receivable, net | — | 150 | (197) |
| Acquisitions, net of cash acquired | (62,268) | (17,239) | (6,765) |
| Deconsolidation of imaging centers and urgent care clinic | — | — | (166) |
| Net cash used for investing activities | (67,420) | (23,239) | (11,646) |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Distributions to noncontrolling interests | (2,646) | (7,059) | (14,998) |
| Proceeds from exercise of stock options | — | 2,322 | 521 |
| Proceeds from exercise of stock warrants | — | 130 | 4,342 |
| Proceeds from private placement | — | — | 28,395 |
| Payments on capital lease obligations | (4,467) | (3,613) | (1,565) |

| | | | |
|---|---|---|---|
| Proceeds from line of credit | 3,000 | 23,213 | 4,500 |
| Payments from line of credit | — | (11,213) | (6,920) |
| Proceeds from debt | 50,000 | 58,940 | 20,000 |
| Payments on debt | (2,013) | (29,713) | (20,584) |
| Deferred financing fees | (4,880) | (2,429) | (662) |
| Net cash provided by financing activities | 38,994 | 30,578 | 13,029 |
| | | | |
| NET (DECREASE) INCREASE IN CASH | (2,036) | 8,906 | 8,098 |
| CASH — Beginning of year | 24,572 | 15,666 | 7,568 |
| CASH — End of year | $ 22,536 | $ 24,572 | $ 15,666 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | | |
| Cash paid for interest | $ 4,970 | $ 2,798 | $ 1,236 |
| Cash paid for taxes | $ 1,737 | $ 5,852 | $ 427 |
| | | | |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Non-cash deconsolidation of property and equipment | $ — | $ — | $ 2,828 |
| Non-cash deconsolidation of goodwill | $ — | $ — | $ 701 |
| Stock consideration given in conjunction with acquisitions | $ 735 | $ 2,250 | $ 650 |
| Capital lease obligations | $ 4,486 | $ 1,828 | $ 12,969 |
| Convertible promissory note | $ 8,500 | $ 2,250 | $ — |
| Athas settlement in lieu of contingent shares | $ — | $ — | $ 5,685 |

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

**NOTE 1 - COMPANY DESCRIPTION**

Nobilis Health Corp. (“Nobilis” or the “Company”) was incorporated on March 16, 2007 under the name "Northstar Healthcare Inc." pursuant to the provisions of the British Columbia *Business Corporations Act* . On December 5, 2014, Northstar Healthcare Inc. changed its name to Nobilis Health Corp. The Company owns and manages health care facilities in the States of Texas and Arizona, consisting primarily of specialty surgical hospitals, ambulatory surgery centers (ASCs) and multi-specialty clinics. The Company's service offerings within the health care industry include providing contracted marketing services and accounts receivable factoring.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Principles of Consolidation

The Company consolidates entities in which it has a controlling financial interest. We consolidate subsidiaries in which we hold, directly or indirectly, more than 50% of the voting rights and, in the case of variable interest entities (VIEs), with respect to which the Company is determined to be the primary beneficiary. In the opinion of management, all material adjustments, consisting of normal recurring adjustments, necessary for fair presentation have been included. These consolidated financial statements include all accounts of the Company. All significant intercompany transactions and accounts have been eliminated upon consolidation.

These consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for financial information. Accordingly, they include all of the information and notes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements.

*Noncontrolling Interests* - Noncontrolling interests represent third-party equity ownership in certain of our consolidated subsidiaries and are presented as a component of equity, unless the noncontrolling interest holders have certain redemption rights, in which case the carrying amount of such interests is classified as contingently redeemable (between liabilities and equity) or, for mandatorily redeemable noncontrolling interests, in liabilities. See Note 19 - Noncontrolling interests for further discussion of noncontrolling interests.

*Variable Interest Entities* - VIEs are entities that, by design, either (i) lack sufficient equity to permit the entity to finance its activities independently, or (ii) have equity holders that, as a group, do not have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the entity’s losses, or the right to receive the entity’s residual returns. We consolidate a VIE when we are the primary beneficiary, which is the party that has both (i) the power to direct the activities that most significantly impact the VIE’s economic performance and (ii) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 19 - Noncontrolling interests for further discussion of noncontrolling interests.

Use of Accounting Estimates

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

Estimates most consequential to our consolidated financial statements are in the area of revenue recognition. Because a significant portion of our net patient service revenue is associated with services provided on out-of-network basis, with no contractually agreed-upon reimbursement rates from third-party payors, revenues expected to be realized are estimated based on our historical experience with allowable charges by a given payor for the specific service performed. These estimates are subject to ongoing monitoring and adjustment based on actual experience with final settlements and collections.

Other significant estimates include estimates of fair values which management formulates in connection with valuation of assets and liabilities acquired in business combinations and impairment tests of goodwill, intangible assets, property, and certain investments and financial instruments; estimates of useful lives of our property and intangible assets; as well as realizable amounts of accounts receivable and deferred tax assets.

Revenue Recognition

*Patient and Net Professional Fees* - Patient and net professional fees are reported at the estimated net realizable amounts from third-party payors, patients and others for services rendered at the health facilities we operate and consist primarily of fees for the use of our facilities. These revenues also include management fees from locations we manage because the revenues are derived from third-party payers, patients, and other. Such revenues are recognized when the ultimate collection is estimable and reasonably assured, which typically is when the related medical procedures are performed. Net patient revenues are stated at the ultimate amounts expected to be collected (net of any patient discounts and contractual and other adjustments of third-party payors). Our revenues exclude any amounts billed for physicians' services, which are billed separately by the physicians to the patient or third-party payor.

The amounts actually collected by the Company from third-party payors, including private insurers, vary among payors, even for identical medical procedures. As such, in estimating net patient service revenues, management evaluates payor mix, (among private health insurance plans, workers' compensation insurers, government payor plans and patients), historical settlement and payment data for a given payor and type of medical procedure, and current economic conditions and revises its revenue estimates as necessary in subsequent periods. For services subject to contracted rates with third-party payors, revenues are recognized net of applicable contractual adjustments.

The Company also manages healthcare facilities that recognize patient and net professional fees for the services they provide. The Company earns management fees based on a percentage of collections of the facilities, less certain expenses incurred by the facilities. The Company acts as an agent in these scenarios and recognizes revenues on a net basis. The net revenues are earned in the same manner and timing as net patient service revenues discussed above.

*Contracted Marketing Revenues* - Contracted marketing revenue is comprised of payments from specialty surgical hospitals, ASC's and other ancillary service providers through marketing services agreements. The services include licensing, marketing, patient intake, and upfront education services. Revenue is recognized on a gross basis upon the performance of the marketing service and corresponding medical procedure when ultimate collection is measurable and reasonably assured.

*Factoring Revenues* - Factoring revenues represent revenues generated from certain accounts receivables purchased from third parties (typically, practicing physicians) in the ordinary course of business. Purchase price is determined either by a flat fee per medical procedure (reflecting a discount to the face amount of the receivable), as dictated per the agreement, or as a percentage of final collections. At the time of purchase, Nobilis acquires the right to collect the full amount of the receivable and assumes all associated financial risk. Costs related to billings and collections are borne by the Company, without any recourse to the third party seller and reflected as a component of operating expenses. Factoring revenues represent the excess of collections of purchased receivables over their acquisition cost and are recognized over the period from purchase to collection.

Advertising and Marketing Costs

Advertising costs are expensed as they are incurred. Advertising expense for the years ended December 31, 2017 , 2016 and 2015 was $37.4 million , $43.8 million , and $35.0 million , respectively. The Company utilizes many media outlets for marketing to patients which include internet, TV, radio, print, seminar and billboard advertising. Advertising and marketing expense is recorded within both the operating expenses: general and administrative and corporate costs: general and administrative line items within the consolidated statements of income.

Cash

Cash is defined as cash on-hand and demand deposits. The Company maintains its cash in various financial institutions, which at times may exceed federally insured amounts. At December 31, 2017 and 2016 , our cash deposits exceeded such federally insured limits. Management believes that this risk is not significant. We have not experienced any losses in such accounts, and we believe we are not exposed to any significant credit risks on cash.

Trade Accounts Receivable, net

Trade accounts receivable, net consists of net patient service revenues and factoring revenues recorded at their net realizable amounts, while contracted marketing revenues are recognized at the fees due from the facilities for marketing services performed pursuant to governing contractual arrangements.

On a periodic basis, we evaluate receivables based on the age of the receivable, history of past collections and current credit and economic conditions and adjust the carrying amount accordingly. An account is written off when it is determined that all collection efforts have been exhausted. The Company does not accrue finance or interest charges on accounts receivable. An allowance for uncollectible patient receivables balances, including receivables from non-partner surgeons, is maintained at a level which the Company believes is adequate to absorb probable credit losses.

Medical Supplies

Medical supplies consist of various surgical supplies and medications and are carried at the lower of cost or market using the first-in, first-out method. The market value of inventories is determined based on the estimated selling price in the ordinary course of business less the estimated costs of sale, and a reasonable profit margin based on the effort required to sell the inventories. The Company had no write-downs in the carrying amounts of medical supplies inventories for the years ended December 31, 2017 , 2016 , or 2015.

Property and Equipment, net

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. 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 and equipment or the present value of the future 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 expense when incurred.

We evaluate our long-lived assets for possible impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows expected to arise from their use and ultimate disposition. If the estimated future undiscounted cash flows are lower than the carrying amount of the assets, we determine the amount of impairment, if any, as the excess of the carrying amount of the long-lived asset over its estimated fair value. The fair value of the assets is estimated based on appraisals, established market values of comparable assets or internal estimates of discounted future net cash flows expected to result from the use and ultimate disposition of the asset. The estimates of these future cash flows are based on assumptions and projections we believe to be reasonable and supportable. They require our subjective judgments and take into account assumptions about revenue and expense growth rates. These assumptions may vary by type of facility and presume stable, improving or, in some cases, declining results at our medical facilities, depending on their specific operating circumstances.

Goodwill and Intangibles

Goodwill represents the excess of the cost of an acquired business over the acquisition-date fair value of the net identifiable assets acquired. Goodwill is reviewed for impairment on an annual basis or more frequently if events or circumstances indicate potential impairment. Such review is performed at the reporting unit level, whereby goodwill balances and identifiable assets and liabilities are assigned to a reporting unit to which they relate. For this purpose, the Company currently has two reporting units which are aligned with its business segments.

The Company’s goodwill evaluation for each reporting unit is based on both qualitative and quantitative assessments regarding the fair value of goodwill relative to its carrying amount. The Company assesses qualitative factors to determine if the fair value of its reporting units is more likely than not to exceed its carrying amount, including goodwill. In the event the Company determines that it is more likely than not that a reporting unit’s fair value is lower than its carrying amount, quantitative testing is performed comparing carrying amount of the reporting unit to estimated fair value. Fair value estimates are based on appraisals, established market prices for comparable assets or internal estimates of discounted future net cash flows. If the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired. If the carrying amount exceeds the fair value, an impairment charge is recognized for the excess of the carrying amount of goodwill over its implied fair value.

Indefinite-lived intangible assets consisting of trade names, trademarks, and Medicare and hospital licenses, are not amortizable; however, are evaluated for impairment on an annual basis. Intangible assets subject to amortization, which consist of non-compete agreements, internally developed software, hospital management agreements, trade secret methodology, trade names, and customer relationships, are carried at cost less accumulated amortization, which is calculated on a straight-line basis over the asset’s estimated useful life. The estimated useful lives of our intangibles are as follows:

| *Intangible Asset* | *Estimated Useful Lives (in years)* |
|---|---|
| Non-compete agreements | 2-10 |
| Internally developed software | 5 |
| Hospital management agreements | 10-12 |
| Trade secret methodology | 10 |
| Physician relationships | 20 |
| Trade names | 8 |
| Customer relations | 12 |

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates include the Company's investments in non-marketable equity securities that do not represent a controlling financial interest in the investee. Such investment balances are included in the Company's consolidated balance sheets in other long-term assets, and include investments accounted for using the equity and the cost method of accounting. Where the Company exercises significant influence over the investee, the Company accounts for its investment under the equity method of accounting. In other cases, the investments in unconsolidated affiliates are accounted for using the cost method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee's board of directors, ability to participate in setting operating, financial and other policies of the investee, and ownership level.

Under the equity method of accounting, the carrying amount of the investment is adjusted each reporting period for the Company's pro rata share of investee's earnings (which also are reflected in other expense (income) in the Company's consolidated statements of income) and any distributions received. Cost-method investments are stated at cost, adjusted only to reflect any other-than-temporary impairment in value or return of the capital invested through a distribution or disposition. Earnings on cost-method investments, if any, are recognized in other expense (income) when dividends or other distributions of earnings are declared.

Investments in unconsolidated affiliates are reviewed for impairment at least annually and any impairment loss that is other than temporary is recognized in the consolidated statements of earnings, with no future recovery in value recognized.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A deferred tax asset will be reduced by a valuation allowance when, based on the Company's estimates, it is more likely than not that a portion of those assets will not be realized in a future period. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character and in the related jurisdiction in the future. In evaluating our ability to recover our deferred tax assets, we consider the available positive and negative evidence, including our past operating results, the existence of cumulative losses in the most recent years and our forecast of future taxable income.

The Company accounts for uncertain income tax positions in accordance with the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) Topic 740, *Income Taxes* . Using that guidance, tax positions are recognized by the Company in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. The Company's policy is to recognize interest and penalties accrued on any uncertain income tax benefits as a component of income tax expense.

Fair Value

Certain financial instruments are reported at fair value on our consolidated balance sheets. Under fair value measurement accounting guidance, fair value is defined as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, (i.e., an exit price). To estimate an exit price, a three-level hierarchy is used. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or a liability, into three levels. Level 1 inputs are unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly (such as quoted prices for similar assets or liabilities). Level 3 inputs are unobservable inputs for the asset or liability and have the lowest priority (such as cash-flow assumptions formulated by management).

The valuation techniques that may be used to measure fair value include a market approach, an income approach and a cost approach. A market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. An income approach uses valuation techniques to convert future cash flow amounts to a single present amount based on current market expectations, including present value techniques, option-pricing models and the excess earnings method. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Leases

Certain leases to which the Company is party as a lessee are classified as capital leases whenever the terms of the lease transfer to the Company substantially all of the risks and rewards of ownership. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of income on a straight-line basis over the period of the lease as rent expense.

Foreign Currency

The Company has no significant business operations outside the United States and, therefore, the functional currency and the local currency for its business operations is the U.S. Dollar ("USD"). The accompanying consolidated statements are also presented in USD, the Company's reporting currency.

From time to time monetary assets and liabilities may be denominated in foreign currency, and, if so, will be translated at the exchange rate in effect as of the balance sheet date, with resulting gains or losses included within the consolidated statements of income. Revenues and expenses denominated in foreign currencies are translated into USD at the average foreign currency exchange rate for the period.

Stock-Based Compensation

The Company recognizes all stock-based compensation to employees, including grants of employee stock options, in the consolidated financial statements based on their grant-date fair values. The Company values its stock options awarded using the Black-Scholes option pricing model. Restricted stock awards are valued at the grant-date closing market price. Stock-based compensation costs are recognized over the vesting period, which is the period during which the employee is required to provide service in exchange for the award.

In the past, the Company has issued stock-based awards to non-employees. The fair value of these option awards is estimated when the award recipient completes the contracted professional services. The Company recognizes expense for the estimated total value of the awards during the period from their issuance until performance completion, at which time the estimated expense is adjusted to the final value of the award as measured at performance completion. Because our non-employee stock options were issued with exercise prices denominated in Canadian Dollars, upon performance completion, their fair values are reclassified from equity to liabilities and remeasured to fair value each reporting period, with remeasurement gains and losses recognized in other expense (income) in our consolidated statements of income.

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. Fully diluted income per share is computed using the weighted average number of common and potential common shares outstanding during the period. Potential common shares include those that may be issued upon redemption of units granted under the Company's restricted stock unit and Share Option Plans or shares issued upon conversion of convertible debt.

Segment Reporting

The Company reports segment information based on how the chief operating decision maker, along with other members of management, organize and utilize financial and operational data in determining how to allocate resources and assess performance.

The Company's business lines are classified into two reportable business segments outside of corporate which include a Medical Segment and a Marketing Segment. The Medical Segment provides the operation or management of specialty surgical hospitals, outpatient facilities and other related health care services. The Marketing Segment provides direct-to-consumer marketing efforts which educate patients on their healthcare options. Factoring activities are included in the Marketing Segment, as such activities only pertain to patient services that result from the Company's Marketing Segment efforts.

We evaluate performance based on income from operations of the respective business segments prior to the allocation of corporate office expenses. Transactions between segments are eliminated in consolidation. Our corporate office provides general and administrative and support services to our two revenue-generating segments. Management allocates costs between segments for selling, general and administrative expenses and depreciation expense.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections* (Topic 250) *and Investments – Equity Method and Joint Ventures* (Topic 323): *Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings* . The amendment provides guidance to the Company in relation to the disclosure of the impact that ASU 2014-09, ASU 2016-02 and ASU 2016-13 will have on the Company's financial statements when adopted. The Company does not expect that the adoption of this update has or will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combination* (Topic 805): *Clarifying the Definition of a Business* . This amendment clarifies the definition of a business to assist entities when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or business. For public companies, this ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted for the transactions that occur before the issuance date or effective date of the amendment, only when the transaction has not been reported in financial statements that have been issued or made available for issuance. The Company does not expect that the adoption of this update will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. For public entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In March 2016,the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* . Under the new guidance in ASU 2016-09, companies can continue to estimate forfeitures or they can elect to account for forfeitures as they occur by reversing compensation cost when the award is forfeited. If a company elects to account for forfeitures as they occur, they will still be required to estimate forfeitures when issuing replacement awards in a business combination or when awards are modified.
The Company elected to continue to estimate forfeitures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02") which supersedes FASB ASC Topic 840, *Leases* (Topic 840) and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The Company is currently evaluating the method of adoption and the impact of adopting ASU 2016-02 on its results of operations, cash flows and financial position.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall* (Topic 825): *Recognition and Measurement of Financial Assets and Financial Liabilities* . This update changes how entities account for and measure the fair value of certain equity investments and updates the presentation and disclosure of certain financial assets and liabilities. This new ASU is effective for annual and interim periods beginning on or after December 15, 2017, and for interim periods within those fiscal years, with early adoption permitted. The Company does not expect that the adoption of this update will have a material impact on its consolidated financial statements.

Recently Adopted Accounting Standards

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation* (Topic 718): *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 impacts several aspects of the accounting for share-based payment transactions, including classification of certain items on the consolidated statements of cash flows and accounting for income taxes. Specifically, the ASU requires that excess tax benefits and tax deficiencies (the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes) be recognized as income tax expense or benefit in the consolidated statements of income, introducing a new element of volatility to the provision for income taxes. ASU 2016-09 is effective on January 1, 2017, with early adoption permitted. The Company adopted this ASU in the first quarter of 2017. This adoption did not have an impact on the Company's financial statements.

In October 2016, the FASB issued ASU No. 2016-17, *Interests Held through Related Parties That Are under Common Control* . This standard modifies existing guidance with respect to how a decision maker that holds an indirect interest in a VIE through a common control party determines whether it is the primary beneficiary of the VIE as part of the analysis of whether the VIE would need to be consolidated. Under the ASU, a decision maker would need to consider only its proportionate indirect interest in the VIE held through a common control party. Previous guidance had required the decision maker to treat the common control party's interest in the VIE as if the decision maker held the interest itself. As a result of the ASU, in certain cases, previous consolidation conclusions may change. The standard is effective January 1, 2017 with retrospective application to January 1, 2016. The Company adopted this ASU in the first quarter of 2017. This adoption did not have an impact on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* . This standard simplifies the accounting for goodwill impairment by eliminating step two from the goodwill impairment test. Instead of a two-step impairment model, if the carrying amount of a reporting unit exceeds its fair value as determined in step one of the impairment test, an impairment loss is measured at the amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. This ASU is effective for any interim or annual impairment tests for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company adopted this ASU in the second quarter of 2017. This adoption did not have an impact on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation* (Topic 718) *Scope of Modification Accounting* . This standard clarifies the accounting and application of modifications to terms and conditions of share-based payment awards. This new ASU, based on meeting certain fair market value, classification and vesting conditions, includes guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. Early adoption is permitted, including adoption in any interim period. The Company adopted this ASU in the second quarter of 2017. This adoption did not have an impact on the Company's financial statements.

Revenue Recognition Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09 *, Revenue from Contracts with Customers* (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The standard provides enhancements to the quality and consistency of how revenue is reported by companies, while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards or U.S. GAAP. The new standard also will require enhanced revenue disclosures, provide guidance for transactions that were not previously addressed comprehensively and improved guidance for multiple-element arrangements. This accounting standard becomes effective for the Company for reporting periods beginning after December 15, 2017, and interim reporting periods thereafter. Early adoption is permitted for annual reporting periods (including interim periods) beginning after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method.

In March 2016, the FASB issued ASU No. 2016-08 *, Revenue from Contracts with Customers* (Topic 606) *: Principal versus Agent Considerations* . The purpose of this standard is to clarify the implementation of guidance on principal versus agent considerations related to ASU 2014-09. The standard has the same effective date as ASU 2014-09 described above.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customer,* which provides clarity related to ASU 2014-09 regarding identifying performance obligations and licensing implementation. The standard has the same effective date as ASU 2014-09 described above.

In May 2016, the FASB issued ASU 2016-12: *Revenue from Contracts with Customers* (Topic 606) *: Narrow-Scope Improvements and Practical Expedients* , which provides narrow scope improvements and practical expedients related to ASU 2014-09. The purpose of this standard is to clarify certain narrow aspects of ASU 2014-09, such as assessing the collectability criterion, presentation of sales taxes, and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical correction. The standard has the same effective date as ASU 2014-09 described above.

In December 2016, the FASB issued ASU 2016-20: *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* . The amendments in this standard affect narrow aspects of guidance issued in ASU 2014-09. The standard has the same effective date as ASU 2014-09 described above.

In September 2017, the FASB issued ASU 2017-13, “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), *Leases* (Topic 840), and *Leases* (Topic 842): *Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments* . The amendment delays the mandatory adoption of Topic 606 and Topic 842 for certain entities, revises the guidance related to performance-based incentive fees in Topic 605 and revises the guidance related to leases in Topic 840 and Topic 842. The revisions to the lease guidance eliminate language specific to certain sale-leaseback arrangements, guarantees of lease residual assets and loans made by lessees to owner-lessors. Also included is an amendment to Topic 842 to retain the guidance in Topic 840 covering the impact of changes in tax rates on investments in leveraged leases. This guidance, which is effective immediately, generally relates to the adoption of Topic 606 and Topic 842. The Company does not expect the amendments will impact our consolidated financial statements.

In November 2017, the FASB issued ASU 2017-14, *Income Statement – Reporting Comprehensive Income* (Topic 220), *Revenue Recognition* (Topic 605), and *Revenue from Contracts with Customers* (Topic 606): *Amendments to SEC Paragraphs Pursuant to the Staff Accounting Bulletin (“SAB”) No. 116 and SEC Release No. 33-10403* . This ASU amended, superseded and added certain SEC paragraphs in Topic 220, Topic 605 and Topic 606 to reflect the August 2017 issuance of SEC Staff Accounting Bulletin (SAB) 116 and SEC Release No. 33-10403. The SEC staff issued SAB 116 to align its revenue guidance with Accounting Standards Codification (ASC) 606. For public business entities, this update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted.

The Company has completed our evaluation of the new revenue standard and has adopted and elected the modified retrospective method of ASC 606 in the first quarter of 2018. The adoption of this standard will require the Company to expand its current revenue disclosures, however, will not have a material impact on financial results.

Disclosure of qualitative and quantitative measures will be disclosed in our footnotes inside our first quarterly filing after adoption. These disclosures will explain in depth our different revenue sources and certain information about them including any impact on our current processes or controls. The disclosure rules require us to disaggregate revenues to provide a clearer view into how the Company earns revenues, as well as provide information regarding the nature, amount, timing, and uncertainty and cash flows arising from contracts with customers. This disclosure will be continuously monitored for changes. The Company is currently preparing drafts of the new revenue disclosures for our revenue recognition steering committee that will be provided in the first quarter of 2018.

**NOTE 3 - BUSINESS ACQUISITIONS**

The Company accounts for all transactions that represent business combinations using the acquisition method of accounting, where the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity are recognized and measured at their fair values on the date the Company obtains control in the acquiree. Such fair values that are not finalized for reporting periods following the acquisition date are estimated and recorded as provisional amounts. Adjustments to these provisional amounts during the measurement period (defined as the date through which all information required to identify and measure the consideration transferred, the assets acquired, the liabilities assumed and any noncontrolling interests has been obtained, limited to one year from the acquisition date) are recorded as of the date of acquisition. Any material impact to comparative information for periods after acquisition, but before the period in which adjustments are identified, is recognized during the measurement period in the reporting period in which the adjustment amounts are determined.

<u>*2017 Transactions:*</u>

<u>Elite Management Companies</u>

On November 15, 2017, pursuant to four separate Membership Interest Purchase Agreements (the “Purchase Agreements”), Northstar Healthcare Surgery Center - Houston, LLC ("NHSC") and Nobilis Health Corp. (the "Company"), (NHSC and the Company are each a "Buyer" and collectively "Buyers") and Elite Surgical Affiliates (ESA) and other membership interests, (Elite and other membership interests are each a "Seller" and collectively "Sellers") finalized the Purchase Agreements dated as of November 15, 2017 ("Elite Transaction"). The Company purchased ownership interests in Elite Sinus Spine and Ortho LLC, Elite Center for Minimally Invasive Surgery, LLC, Houston Metro Ortho and Spine Surgery Center LLC and Elite Hospital Management LLC (collectively the "Management Companies", “Elite” or "Elite Management Companies").

The Company purchased Elite for approximately $64.7 million , comprised of $53.6 million in cash, $4.4 million as contractual obligation to purchase additional equity interests, $3.5 million in the form of a convertible promissory note, $2.5 million in form of escrow and $0.7 million in shares of common stock and stock options in order to acquire 53.8% of the Sellers’ ownership interests in Management Companies responsible for three ambulatory surgery centers and one surgical hospital in the greater Houston area. Under U.S. GAAP our equity position effectively increased 3.7% from 50.1% to 53.8% due to an obligation to purchase ESA's 15.1 remaining equity units within the first year after the acquisition date for a fixed price of $4.4 million . As a result, noncontrolling interest is 46.2% . The noncontrolling interest was measured using Finnerty's (2012) Average-Strike Put Option Model (the "Finnerty Model") at its acquisition-date fair value and incorporates the discount for lack of marketability. The Finnerty Model assumes that the put option is struck at the average price of the stock over the period from valuation date to expiration date.

The $2.5 million in escrow was held back and is subject to certain indemnification provisions. On the twelve-month anniversary of closing, 100% of the amount held back, less any amounts paid as, or claimed as, indemnification, will be paid to the Sellers.

As a result of the acquisition, the Company has recognized $46.1 million of goodwill within our Medical Segment, of which, $27.4 million is expected to be deducted for tax purposes. The Company believes that the goodwill is primarily comprised of the business opportunities to be gained through the expanded case volume as well as the access to additional physicians.

Subsequent to the acquisition date of November 15, 2017, Elite had $5.9 million in net revenues and net income of $2.7 million which is included in the Company’s consolidated statement of income for the year ended December 31, 2017.

The costs related to the transaction were $0.3 million and were expensed during the year ended December 31, 2017. These costs are included in the corporate general and administrative expenses in the Company’s consolidated statement of income for the year ended December 31, 2017.

The fair values assigned to certain assets acquired and liabilities assumed in relation to the Company's acquisition have been prepared on a preliminary basis with information currently available and are subject to change. Specifically, the Company is still in the process of assessing the fair value of trade accounts receivable, property and equipment, intangibles, goodwill, leases and working capital adjustment. The Company expects to finalize our analysis during 2018. For the Elite intangible assets, we used the multi-period excess earnings method to estimate the fair value of the hospital department management agreements, the with-and-without method to estimate the fair value of a noncompete agreement, and the relief-from-royalty method to estimate the fair value of the trade name. This are included within the intangible assets balance in the table below. To evaluate the contract value of the acquired accounts receivable, we compared historical trended accrued revenue and collections to determine the appropriate amount to record at time of acquisition.

The following table summarizes the preliminary fair values of the identifiable assets acquired and liabilities assumed at the date of acquisition ( *in thousands* ):

| Management Companies Combined | | **November 15, 2017** |
|---|---|---|
| Net assets acquired: | | |
| Cash | $ | 150 |
| Trade accounts receivable | | 6,490 |
| Prepaid expenses and other current assets | | 145 |
| Property and equipment | | 11,225 |
| Other long-term assets | | 1,057 |
| Goodwill | | 46,069 |
| Intangible assets | | 47,905 |
| Total assets acquired | $ | 113,041 |
| | | |
| Net liabilities assumed: | | |
| Trade accounts payable | $ | 499 |
| Accrued liabilities | | 674 |
| Total liabilities assumed | $ | 1,173 |
| | | |
| Consideration: | | |
| Cash | $ | 53,620 |
| Noncontrolling interests | | 47,124 |
| Future obligation - payment for additional equity interests | | 4,389 |
| Convertible promissory note | | 3,500 |
| Escrow | | 2,500 |
| Stock issued | | 500 |
| Stock options issued | | 235 |
| Total consideration | $ | 111,868 |

DeRosa Medical, P.C. ("DeRosa")

On September 13, 2017, the Company purchased DeRosa in exchange for $0.9 million in cash. DeRosa adds three additional primary care clinics to Nobilis' health network. As a result of the acquisition, the Company has recognized $0.7 million of goodwill within our Medical Segment, of which, 100% is expected to be deductible for tax purposes. The Company believes that the goodwill is primarily comprised of the business opportunities to be gained through the expanded geographical coverage as well as the access to a new physician group.

Hamilton Vein Center (HVC)

The Company completed the acquisition of the operating assets of HVC, Hamilton Physician Services, LLC, a Texas limited liability company (“HPS”), Carlos R. Hamilton, III, M.D., P.A. a Texas Professional Association (“PA”) (HPS and PA are each a “Seller” and collectively “Sellers”), and Carlos R. Hamilton III, M.D, a resident of the State of Texas (“Owner”). The Company, Northstar Healthcare Acquisitions, L.L.C. ("Buyer"), Sellers and Owner entered into an amended and restated purchase agreement (the “Amended and Restated Asset Purchase Agreement”) dated as of March 8, 2017.

Buyer received substantially all of the operating assets of Sellers in exchange for an aggregate purchase price of approximately $13.6 million , comprised of $8.3 million in cash, $5.0 million in the form of a convertible promissory note and an additional $0.3 million purchase price increase related to a working capital adjustment. More information about the convertible promissory note is discussed in Note 12 - Debt.

As part of the Amended and Restated Purchase Agreement, $0.5 million of the cash purchase price was held back and is subject to certain indemnification provisions. On the twelve-month anniversary of closing, 50% of the amount held back, less any amounts paid as, or claimed as, indemnification, will be paid to the Owner. The remaining amounts held back, less any amounts paid as, or claimed as, indemnification, will be paid to the Owner on the twenty-four-month anniversary of closing.

As a result of the acquisition, the Company has recognized $8.3 million of goodwill within our Medical Segment, of which, 100% is expected to be deducted for tax purposes. The Company believes that the goodwill is primarily comprised of the business opportunities to be gained through the expanded geographical coverage as well as the access to a new physician group.

HVC had net revenues and net loss for the year ended December 31, 2017 of $11.7 million and $(2.0) million , respectively.

The costs related to the transaction were nominal and were expensed during the year ended December 31, 2017. These costs are included in the corporate general and administrative expenses in the Company's consolidated statement of income for the year ended December 31, 2017.

We finalized our purchase price allocation during the third quarter of 2017. The final fair values of the identifiable assets acquired and liabilities assumed at the date of acquisition is summarized in the following table ( *in thousands* ):

| | Recognized as of Acquisition Date | Measurement Period Adjustments [1] | March 8, 2017 |
|---|---|---|---|
| Assets acquired: | | | |
| Cash | $ 438 | $ — | $ 438 |
| Trade accounts receivable | 747 | (150) | 597 |
| Prepaid expenses and other current assets | 42 | — | 42 |
| Medical Supplies | 295 | — | 295 |
| Property and equipment | 2,359 | 611 | 2,970 |
| Intangible assets | — | 1,900 | 1,900 |
| Goodwill | 10,828 | (2,499) | 8,329 |
| Total assets acquired | $ 14,709 | $ (138) | $ 14,571 |
| Liabilities assumed: | | | |
| Trade accounts payable | $ 612 | $ (203) | $ 409 |
| Refunds payable | 347 | (347) | — |
| Accrued liabilities | 524 | (83) | 441 |
| Current portion of capital lease | 69 | — | 69 |
| Long-term portion of capital leases | 39 | — | 39 |
| Total liabilities assumed | $ 1,591 | $ (633) | $ 958 |
| Consideration: | | | |
| Cash | $ 8,321 | $ — | $ 8,321 |
| Convertible promissory note | 5,000 | — | 5,000 |
| Working capital adjustment | (203) | 495 | 292 |
| Total consideration | $ 13,118 | $ 495 | $ 13,613 |

[1] The measurement period adjustments reflect changes in the estimated fair values of certain assets and liabilities. The measurement period adjustments were recorded to reflect new information obtained about facts and circumstances existing as of the date the acquisition was consummated and did not result from intervening events subsequent to that date.

*2016 Transactions:*

Arizona Vein and Vascular

On October 28, 2016, the Company acquired Arizona Vein and Vascular Center, LLC (AVVC) and its four affiliated surgery centers operating as Arizona Center for Minimally Invasive Surgery, LLC (ACMIS), (collectively, "AZ Vein") from Dr. L. Philipp Wall, M.D., for a total purchase price of $22.3 million comprised of $17.5 million in cash, $2.25 million in Nobilis common shares, $2.25 million in the form of a convertible promissory note, $0.1 million earn-out arrangement to be paid in cash based on a trailing 12 month earnings before interest, income taxes, depreciation and amortization (EBITDA) of AZ Vein and the purchased assets and an additional $0.2 million purchase price increase related to a working capital adjustment. More information about the convertible promissory note is discussed in Note 12 - Debt.

In addition, $1.1 million of the cash purchase price was held back and is subject to certain indemnification provisions. On the twelve-month anniversary of closing, 50% of the amount held back, less any amounts paid as, or claimed as, indemnification, will be paid to Dr. Wall. The remaining amount held back, less any amounts paid as, or claimed as, indemnification, will be paid to Dr. Wall on the twenty-four-month anniversary of closing.

Dr. Wall was the sole equity holder for both AVVC and ACMIS and started the companies in 2007 and 2012, respectively. AVVC and ACMIS are leading clinical and surgical providers for vascular, radiology, podiatry, and general surgery, with five locations in the Phoenix and Tucson metropolitan areas. The acquisition expands Nobilis' presence in two high-growth geographic markets, Phoenix and Tucson, and increases its multi-specialty offering with new vascular surgical specialties within a group of established physician partners.

As a result of the acquisition, the Company has recognized $16.1 million of goodwill within our Medical Segment, of which, 100.0% is expected to be deducted for tax purposes. The Company believes that the goodwill is primarily comprised of the business opportunities to be gained through the expanded geographical coverage as well as the access to a new physician group.

AZ Vein had net revenues and net (loss) for the year ended December 31, 2017, of $4.4 million and $(9.2) million , respectively.

The costs related to the transaction were $0.3 million and were expensed during the year ended December 31, 2016. These costs are included in the corporate general and administrative expenses in the Company's consolidated statement of income for the year ended December 31, 2016.

The Company incurred expenses related to certain representations and warranties that were provided in the agreement and incurred damages. The Company estimated in 2017 that no amounts would be paid to Dr. Wall under the hold back or promissory note. The changes are not reflected in the opening balance sheet below and the $3.5 million is included in other income in our consolidated statements of income for the year ended December 31, 2017. In February 2018, subsequent to the reporting period, the Company entered into a settlement agreement in connection with contract disputes that arose during the year with the seller of the Company's acquisition of AZ Vein.

We finalized our purchase price allocation during the second quarter of 2017. The final fair values of the identifiable assets acquired and liabilities assumed at the date of acquisition is summarized in the following table ( *in thousands* ):

| | Recognized as of Acquisition Date | Measurement Period Adjustments [1] | October 28, 2016 |
|---|---|---|---|
| Assets acquired: | | | |
| Cash | $ 261 | $ — | $ 261 |
| Trade accounts receivable | 3,472 | — | 3,472 |
| Prepaid expenses and other current assets | 188 | — | 188 |
| Medical Supplies | 191 | — | 191 |
| Property and equipment | 2,745 | — | 2,745 |
| Other long-term assets | 6 | — | 6 |
| Intangible assets | 1,700 | — | 1,700 |
| Goodwill | 17,185 | (1,041) | 16,144 |
| Total assets acquired | $ 25,748 | $ (1,041) | $ 24,707 |
| | | | |
| Liabilities assumed: | | | |
| Trade accounts payable | $ 996 | $ — | $ 996 |
| Accrued liabilities | 273 | — | 273 |
| Current portion of capital leases | 472 | — | 472 |
| Long-term portion of capital leases | 666 | — | 666 |
| Total liabilities assumed | $ 2,407 | $ — | $ 2,407 |
| | | | |
| Consideration: | | | |
| Cash | $ 17,500 | $ — | $ 17,500 |
| Stock issued | 2,250 | — | 2,250 |
| Convertible promissory note | 2,250 | — | 2,250 |
| Working capital adjustment | 1,241 | (1,041) | 200 |
| Earnout consideration | 100 | — | 100 |
| Total consideration | $ 23,341 | $ (1,041) | $ 22,300 |

[1] The measurement period adjustments reflect changes in the estimated fair values of certain assets and liabilities. The measurement period adjustments were recorded to reflect new information obtained about facts and circumstances existing as of the date the acquisition was consummated and did not result from intervening events subsequent to that date.

Unaudited Supplemental Pro Forma Information - 2017

The following table presents the unaudited pro forma results of the Company as if the 2017 business combinations previously discussed had been made on January 1, 2016. The pro forma information is based on the Company's consolidated statements of income for the years ended December 31, 2017 and 2016. The unaudited supplemental pro forma financial information has been provided for illustrative purposes only and does not purport to be indicative of the actual results that would have been achieved by combining the companies for the periods presented, or of the results that may be achieved by the combined companies in the future. Further, results may vary significantly from the results reflected in the following unaudited supplemental pro forma financial information because of future events and transactions, as well as other factors.

The unaudited supplemental pro forma financial information presented below has been prepared by adjusting the historical results of the Company to include historical results of the 2017 acquired businesses described above and was then adjusted: (i) to increase amortization expense resulting from intangible assets acquired; (ii) to reduce interest expense from debt which was retained by the seller upon acquisition of the respective businesses and concurrently increase the Company's interest expense based upon the purchase price; and (iii) to increase depreciation expense for the incremental increase in the value of property and equipment acquired; (iv) to decrease expenses for management services which were provided by the preceding parent entity and to concurrently increase expenses for management services which are now provided by the Company; (v) to adjust earnings per share to reflect the common shares issued as part of the purchase consideration. The unaudited supplemental pro forma financial information does not include adjustments to reflect the impact of other cost savings or synergies that may result from these acquisition.

The following table shows our pro forma results for the years ended December 31, 2017 and 2016 ( *in thousands, except per share amounts* ):

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Revenue | $ | 336,586 | $ | 346,158 |
| Income from operations | $ | 39,420 | $ | 34,263 |
| Net income attributable to Nobilis Health Corp. | $ | 7,808 | $ | 12,723 |
| Net income per basic common share | $ | 0.10 | $ | 0.17 |

Unaudited Supplemental Pro Forma Information - 2016

The following table presents the unaudited pro forma results of the Company as if the 2016 business combination previously discussed had been made on January 1, 2015. The pro forma information is based on the Company's consolidated statements of income for the years ended December 31, 2016 and 2015. The unaudited supplemental pro forma financial information has been provided for illustrative purposes only and does not purport to be indicative of the actual results that would have been achieved by combining the companies for the periods presented, or of the results that may be achieved by the combined companies in the future. Further, results may vary significantly from the results reflected in the following unaudited supplemental pro forma financial information because of future events and transactions, as well as other factors.

The unaudited supplemental pro forma financial information presented below has been prepared by adjusting the historical results of the Company to include historical results of the 2016 acquired business described above and was then adjusted: (i) to increase amortization expense resulting from the intangible assets acquired; (ii) to adjust earnings per share to reflect the common shares issued as part of the purchase consideration; (iii) to reduce interest expense from debt which was retained by the seller upon acquisition of the respective businesses; (iv) to adjust the carrying value of net property and equipment to its fair value and to increase depreciation expense for the incremental increase in the value of property and equipment; (v) to decrease expenses for management services which were provided by the preceding parent entity and to concurrently increase expenses for management services which are now provided by the Company; and (vi) to adjust noncontrolling interest to properly reflect the minority ownership percentages which were not purchased by the Company. The unaudited supplemental pro forma financial information does not include adjustments to reflect the impact of other cost savings or synergies that may result from these acquisition.

The following table shows our pro forma results for the year ended December 31, 2016 and 2015 ( *in thousands, except per share amounts* ):

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | | 2016 | | 2015 |
| Revenue | $ | 299,944 | $ | 253,624 |
| Income from operations | $ | 13,135 | $ | 30,903 |
| Net income attributable to Nobilis Health Corp. | $ | 8,052 | $ | 52,868 |
| Net income per basic common share | $ | 0.08 | $ | 0.77 |

**NOTE 4 - INVESTMENTS IN ASSOCIATES**

In March 2016, the Company acquired a 58% interest in Athelite Holdings LLC ("Athelite"), a holding company with a 70% interest in Dallas Metro Surgery Center LLC ("Dallas Metro"), a company formed to provide management services to a hospital outpatient department. In April 2016, Athelite interest in Dallas Metro was reduced to 62% . The Athelite investment is accounted for as an equity method investment as the Company did not obtain the necessary level of control for the investment to be accounted for as a business combination. This is due to the fact that the Company does not have the ability to directly appoint a majority of the board members of Dallas Metro or independently make strategic operational decisions. The carrying value as of December 31, 2017 was $0.4 million . The investment is classified as other long-term assets in the consolidated balance sheets.

## NOTE 5 - FINANCIAL INSTRUMENTS AND CONCENTRATION

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies, and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

*Principal financial instruments*
The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Accounts receivable and other receivables
- Investments in associates
- Accounts payable, accrued liabilities and other current liabilities
- Other liabilities and notes payable
- Capital leases
- Lines of credit
- Debt
- Warrants
- Non-employee stock options

The carrying amounts of the Company's cash, accounts receivable and other receivables, accounts payable, accrued liabilities, other current liabilities, other liabilities as reflected in the consolidated financial statements approximate fair value due to the short term maturity of these items. The estimated fair value of our other long-term debt instruments approximate their carrying amounts as the interest rates approximate our current borrowing rate for similar debt instruments of comparable maturity, or have variable interest rates.

*Financial instruments - risk management*
The Company is exposed through its operations to the following financial risks:

- Credit risk
- Fair value risk
- Foreign exchange risk
- Other market price risk
- Liquidity risk
- Interest rate risk

*Credit risk*
Credit risk is the risk of financial loss to the Company if a patient, non-partner surgeon or insurance company fails to meet its contractual obligations. The Company, in the normal course of business, is exposed mainly to credit risk on its accounts receivable from insurance companies, other third-party payors, and physicians. Accounts receivables are net of applicable bad debt reserves, which are established based on specific credit risk associated with insurance companies, payors and other relevant information.

*Market risk*
Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate due to changes in interest rates and/or foreign currency exchange rates.

*Interest rate risk*
The Company entered into a revolving line of credit that, from time to time, may increase interest rates based on market index.

*Liquidity risk*
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and arises from the Company's management of working capital. The Company's objective to managing liquidity risk is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due. To achieve this objective, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements. The liquidity risk of the Company and its subsidiaries is managed centrally by the Company's finance function. The Company believes that there are currently no concerns of its ability to meet its liabilities as they become due for the foreseeable future.

*Concentrations*

The following tables set forth certain information with respect to the Company's payor concentration. Patient and net professional fee revenues by payor are summarized below for the applicable periods:

**MEDICAL SEGMENT**

| Payors | 2017 | 2016 | 2015 |
|---|---|---|---|
| Private insurance and other private pay | 97.3% | 96.6% | 95.5% |
| Workers compensation | 1.5% | 3.0% | 4.1% |
| Medicare | 1.2% | 0.4% | 0.4% |
| Total | **100%** | **100%** | **100%** |

**MARKETING SEGMENT**

| Payors | 2017 | 2016 | 2015 |
|---|---|---|---|
| Private insurance and other private pay | 100.0% | 100.0% | 100.0% |
| Workers compensation | 0.0% | 0.0% | 0.0% |
| Medicare | 0.0% | 0.0% | 0.0% |
| Total | **100%** | **100%** | **100%** |

**CONSOLIDATED SEGMENTS**

| Payors | 2017 | 2016 | 2015 |
|---|---|---|---|
| Private insurance and other private pay | 97.5% | 97.1% | 95.6% |
| Workers compensation | 1.4% | 2.6% | 4.0% |
| Medicare | 1.1% | 0.3% | 0.4% |
| Total | **100%** | **100%** | **100%** |

Four facilities represent approximately 96% of the Company's contracted marketing revenue for the year-ended December 31, 2017 , and four facilities represent approximately 95% of the Company's contracted marketing accounts receivable as of December 31, 2017 .

**NOTE 6 - TRADE ACCOUNTS RECEIVABLE**

A detail of trade accounts receivable, net as of December 31, 2017 and 2016 is as follows *(in thousands)* :

| | 2017 | 2016 |
|---|---|---|
| Trade accounts receivable | $ 140,580 | $ 121,599 |
| Allowance for doubtful accounts | (2,598) | (750) |
| Receivables transferred | — | (309) |
| Receivables purchased | 6,540 | 4,411 |
| Trade accounts receivable, net | $ 144,522 | $ 124,951 |

Accounts receivable related to accounts greater than 365 days was $20.4 million and $0.6 million for the years ending December 31, 2017 and 2016, respectively.

Bad debt expense was $ 2.4 million , $0.8 million and $3.6 million for the years ended December 31, 2017, 2016 and 2015 , respectively.

A detail of allowance for doubtful accounts as of December 31, 2017 and 2016 is as follows ( *in thousands* ):

| | Balance at Beginning of Period | Costs and Expenses | Recovery | Write-offs, net [1] | Balance at End of Period |
|---|---|---|---|---|---|
| Allowance for doubtful accounts: | | | | | |
| Year ended December 31, 2017 | $ (750) | $ (2,402) | $ — | $ 554 | $ (2,598) |
| Year ended December 31, 2016 | $ (5,165) | $ (750) | $ 1,135 | $ 4,030 | $ (750) |

(1) Adjudication of previously recorded allowance for doubtful accounts

From time to time, we transfer to third parties certain of our accounts receivable payments on a non-recourse basis in return for advancement on payment to achieve a faster cash collection. As of December 31, 2017 and 2016 , there remained a balance of nil and $0.3 million , respectively, in transferred receivables pursuant to the terms of the original agreement.

For the years ended December 31, 2017 , 2016 and 2015 , the Company received advanced payments of nil , $0.6 million and $1.7 million , respectively. During the same time period, the Company transferred nil , $5.2 million and $ 7.6 million of receivables, net of advancement of payment. Concurrently, upon collection of these transferred receivables, payment will be made to the transferee.

Athas Health, LLC ("Athas"), Nobilis Health Network Specialist Group, PLLC (NHNSG), Premier Health Specialists, LLC ("Premier") and NH Clinical Services, PLLC ("NH Clinical) purchase receivables from physicians, at a discount, on a non-recourse basis. The discount and purchase price vary by specialty and are recorded at the date of purchase, which generally occurs 50 to 60 days after the accounts are billed. These purchased receivables are billed and collected by Athas, NHNSG, Premier and NH Clinical and they retain 100% of what is collected after paying the discounted purchase price. Following the transfer of the receivable, the transferor has no continued involvement and there are no restrictions on the receivables.

Gross revenue from purchased receivables was $16.6 million , $15.8 million and $11.5 million for the years ended December 31, 2017 , 2016 and 2015, respectively. Revenue, net of the discounted purchase price, was $9.3 million , $8.7 million and $6.6 million for the years ended December 31, 2017 , 2016 and 2015, respectively.

Accounts receivable for purchased receivables was $6.5 million and $4.4 million for the years ended December 31, 2017 and 2016 , respectively. Revenue from receivables purchased is recorded in the factoring revenue line item within the consolidated statements of income.

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment, net consisted of the following as of December 31, 2017 and 2016 ( *in thousands* ):

| | 2017 | 2016 |
|---|---|---|
| Telephone equipment | $ 411 | $ 374 |
| Computer hardware | 2,363 | 1,863 |
| Computer software | 4,031 | 2,824 |
| Furniture and office equipment | 2,395 | 1,726 |
| Medical equipment | 41,287 | 28,158 |
| Leasehold improvements | 17,689 | 8,605 |
| Building | 12,607 | 12,520 |
| Construction in progress | 617 | 859 |
| | 81,400 | 56,929 |
| Less: accumulated depreciation | (29,841) | (20,206) |
| Property and equipment, net | $ 51,559 | $ 36,723 |

Depreciation expense for the years ended December 31, 2017 , 2016 and 2015 was $9.7 million , $7.1 million , and $3.7 million , respectively.

## NOTE 8 - INTANGIBLE ASSETS

Intangible assets at December 31, 2017 and 2016 consist of the following ( *in thousands* ):

| | December 31, 2017 | | | | | December 31, 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Historical Cost | Additions | Accumulated Amortization | Accumulated Impairment | Net Book Value | Historical Cost | Additions | Accumulated Amortization | Accumulated Impairment | Net Book Value |
| Finite Life | | | | | | | | | | |
| Non-compete agreements | $ 2,961 | $ 1,009 | $ 1,671 | $ — | $ 2,299 | $ 2,761 | $ 200 | $ 1,258 | $ — | $ 1,703 |
| Internally developed software | 1,980 | — | 1,221 | — | 759 | 1,980 | — | 825 | — | 1,155 |
| Hospital management agreements | — | 45,905 | 368 | — | 45,537 | — | — | — | — | — |
| Trade secret methodology | 5,620 | — | 1,733 | — | 3,887 | 5,620 | — | 1,170 | — | 4,450 |
| Physician relationships | 2,800 | — | 467 | — | 2,333 | 2,800 | — | 327 | — | 2,473 |
| Tradenames | — | 1,200 | 20 | — | 1,180 | — | — | — | — | — |
| Customer relationships | 500 | — | 108 | — | 392 | 500 | — | 66 | — | 434 |
| | | | | | | | | | | |
| Indefinite Life | | | | | | | | | | |
| Tradenames | 2,260 | 1,700 | — | 900 | 3,060 | 1,160 | 1,100 | — | — | 2,260 |
| Trademark | 5,610 | — | — | 600 | 5,010 | 5,610 | — | — | — | 5,610 |
| Medicare license | 8,498 | — | — | 7,401 | 1,097 | 8,498 | — | — | 7,401 | 1,097 |
| Hospital license | 436 | — | — | — | 436 | 36 | 400 | — | — | 436 |
| Total | $ 30,665 | $ 49,814 | $ 5,588 | $ 8,901 | $ 65,990 | $ 28,965 | $ 1,700 | $ 3,646 | $ 7,401 | $ 19,618 |

Amortization expense was $1.9 million , $1.7 million and $0.9 million for the years ended December 31, 2017 , 2016 and 2015 , respectively. Estimated amortization of intangible assets for the five years and thereafter subsequent to December 31, 2017 is as follows ( *in thousands* ):

| Year ending December 31, | |
|---|---|
| 2018 | $ 6,567 |
| 2019 | 6,335 |
| 2020 | 5,584 |
| 2021 | 5,584 |
| 2022 | 5,584 |
| Thereafter | 26,733 |
| Total | $ 56,387 |

The weighted average remaining useful life of finite lived intangibles at December 31, 2017 was 9.8 years .

The weighted average remaining useful life of our hospital management agreements at December 31, 2017 was 10.1 years.

During our annual impairment test of indefinite lived intangible assets, it was determined tradenames related to our Medical Segment and Marketing Segment were impaired for $0.9 million , and $0.6 million , respectively, in the fourth quarter of 2017. The Company used the relief of royalty method under the income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate and a discount rate applied to the forecast revenue stream. The impairments are a result of increasing costs and lower projected volumes in business associated with specific tradenames and trademarks.

The impairments are within other expense in our consolidated statements of income.

**NOTE 9 - GOODWILL**

The following tables provide information on changes in the carrying amount of goodwill, which is included in the accompanying consolidated balance sheets as of December 31, 2017 and 2016 ( *in thousands* ):

| | 2017 | 2016 |
|---|---|---|
| Cost | $ 254,515 | $ 200,461 |
| Accumulated impairment losses | (138,443) | (138,443) |
| Total | $ 116,072 | $ 62,018 |

| Cost | 2017 | 2016 |
|---|---|---|
| BALANCE - beginning of period | $ 200,461 | $ 183,276 |
| Business combinations: | | |
| AZ Vein | — | 17,185 |
| AZ Vein measurement period adjustment | (1,040) | — |
| Elite Management Companies | 46,069 | — |
| HVC | 8,329 | — |
| DeRosa | 696 | — |
| Total cost | $ 254,515 | $ 200,461 |
| | | |
| Accumulated impairment | | |
| BALANCE - beginning of period | $ (138,443) | $ (138,443) |
| Impairment charges during the period | — | — |
| Total accumulated impairment | $ (138,443) | $ (138,443) |

The Company did not record any goodwill impairment charges for the years ended December 31, 2017 , 2016 or 2015 .

**NOTE 10 - ACCRUED LIABILITIES AND OTHER CURRENT LIABILITES**

The following table presents a summary of items comprising accrued liabilities and other current liabilities in the accompanying consolidated balance sheets as of December 31, 2017 and 2016 ( *in thousands* ):

| | 2017 | 2016 |
|---|---|---|
| Accrued liabilities: | | |
| Accrued salaries and benefits | $ 4,588 | $ 3,333 |
| Contract Services | 3,836 | 2,393 |
| Lab expense | 6,366 | 5,402 |
| Other | 20,603 | 19,017 |
| Total accrued liabilities | $ 35,393 | $ 30,145 |
| | | |
| Other current liabilities: | | |
| Estimated amounts due to third party payors | $ 5,081 | $ 6,286 |
| Additional equity interest purchase obligations in conjunction with Elite acquisition | 4,389 | — |
| Other | 6,854 | 1,275 |
| Total other current liabilities | $ 16,324 | $ 7,561 |

## NOTE 11 - OTHER LONG-TERM LIABILITIES

The Company assumed real property leases as part of certain acquisitions which required the Company to pay above market rentals through the remainder of the lease terms. Of the $3.0 million balance in other long-term liabilities at December 31, 2017 , approximately $2.8 million of that balance relates to unfavorable leases. The unfavorable lease liability is amortized as a reduction to rent expense over the contractual periods the Company is required to make rental payments under the leases. Estimated amortization of unfavorable leases for the five years and thereafter subsequent to December 31, 2017 , is $0.3 million for 2018, 2019, 2020 and 2021, $0.2 million for 2022 and $1.7 million thereafter.

## NOTE 12 - DEBT

*BBVA Credit Agreement*

On October 28, 2016 the Company entered into a BBVA Credit Agreement by and among the Company, certain subsidiaries of the Company parties thereto, the lenders from time to time parties thereto (the “Lenders”) with BBVA Compass Bank as Administrative Agent for the lending group.

The principal amount of the term loan (the “Term Loan A”) pursuant to the BBVA Credit Agreement is $52.5 million , which bears interest on the outstanding principal amount thereof at a rate of the then applicable LIBOR, plus an applicable margin of 4.75% The effective rate for the Term Loan as of December 31, 2017 was 6.44% . All outstanding principal on the Term Loan under the Credit Agreement is due and payable on October 28, 2021.

The revolving credit facility is $30.0 million (the “Revolver”), which bears interest at the then applicable Interest Rate. The effective rate for the Revolver as of December 31, 2017 was 6.11% . The maturity date of the Revolver is October 28, 2021. Additionally, Borrower may request additional commitments from the Lenders in the maximum amount of $50 million , either by increasing the Revolver or creating new term loans. The Company executed Amendment No. 2 to the BBVA Credit agreement and exercised its option to extend our commitments. The Company created ("Term Loan B") and added $50 million in debt on November 15, 2017 (discussed further below). As of December 31, 2017, the outstanding balance on Term Loan A, Term Loan B and the Revolver were $50.5 million , $50.0 million and $18.0 million , respectively.

The Loan Agreement also contains customary events of default, including, among others, the failure by the Borrower to make a payment of principal or interest due under the BBVA Credit Agreement, the making of a materially false or misleading representation or warranty by any loan party, the failure by the Borrower to perform or observe certain covenants in the BBVA Credit Agreement, a change of control, and the occurrence of certain cross-defaults, subject to customary notice and cure provisions. Upon the occurrence of an event of default, and so long as such event of default is continuing, the Administrative Agent could declare the amounts outstanding under the BBVA Credit Agreement due and payable.

The Company entered into Amendment No. 1 to BBVA Credit Agreement and Waiver, dated as of March 3, 2017, by and among NHA, certain subsidiaries of the Company party thereto, Compass Bank, and other financial institutions (the "Amendment"). The purpose of the Amendment was to (i) modify the definition of “Permitted Acquisition” to require Lender approval and consent for any acquisition which is closing during the 2017 fiscal year; (ii) modify certain financial definitions and covenants, including, but not limited to, an increase to the maximum Consolidated Leverage Ratio to 3.75 to 1.00 for the period beginning September 30, 2016 and ending September 30, 2017, and an increase to the Consolidated Fixed Charge Coverage Ratio to 1.15 to 1.00 for the period beginning September 30, 2016 and ending June 30, 2017; (iii) waive the Pro Forma Leverage Requirement in connection with the previously reported HVC; and (iv) provide each Lender’s consent to the HHVC acquisition. The Amendment also contained a limited waiver of a specified event of default.

The Company entered into Amendment No. 2 to BBVA Credit Agreement, dated November 15, 2017, by and among Northstar Healthcare Acquisitions, L.L.C., a Delaware limited liability company and wholly owned subsidiary of Nobilis Health Corp., and Northstar Healthcare Holdings, Inc., a Delaware corporation, entered into the Amendment and certain subsidiaries of the Company. The purpose of the Amendment was to finance the aforementioned Elite acquisition, thereby increasing the aggregate principal amount by $50.0 million through issuance of the Term B Loan. The Term B Loan bears interest on the outstanding principal amount at a rate of the then applicable LIBOR, plus an applicable margin of 6.75% . The effective rate for the Term B Loan as of December 31, 2017 was 8.17% . All outstanding principal on the Term Loan under the Credit Agreement matures on November 15, 2022.

The BBVA Compass Credit Agreement contains three financial covenants that are tested beginning on December 31, 2017. The consolidated leverage ratio may not exceed (i) 4.00 to 1.00 as of the last day of any fiscal quarter from December 31, 2017 through and including September 30, 2018 (ii) 3.75 to 1.00 from December 31, 2018 through and including September 30, 2019 (iii) 3.50 to 1.00 from December 31, 2019 and thereafter, subject to covenant holidays upon the occurrence of certain conditions. The consolidated modified fixed charge ratio must be at a minimum (i) 1.25 to 1.00 as of the last day of any fiscal quarter from September 30, 2017 through and including December 31, 2018 (ii) 1.30 to 1.00 from March 31, 2019 through and including December 31, 2019 (iii) 1.35 to 1.00 from March 31, 2020 and thereafter, subject to covenant holidays upon the occurrence of certain conditions.The consolidated fixed charge ratio must be at a minimum (i) 1.25 to 1.00 as of the last day of any fiscal quarter from September 30, 2017 through and including December 31, 2017 (ii) 1.10 to 1.00 from March 31, 2018 through and including December 31, 2019 (iii) 1.35 to 1.00 from March 31, 2020 and thereafter, subject to covenant holidays upon the occurrence of certain conditions.

As of December 31, 2017, the Company was in compliance with its covenants.

Substantially all of the Company's assets are pledged as collateral to secure the Facility.

Loan origination fees are deferred and the net amount is amortized over the contractual life of the related loans.

Convertible Promissory Note - AZ Vein

In conjunction with our purchase of AZ Vein, we entered into a $2.25 million convertible promissory note. The convertible promissory note bears interest at 5% per annum and matures on the date that is 36 months from closing. The convertible promissory note (outstanding principal but excluding accrued and unpaid interest) can be converted into common shares of NHC (the "Conversion Shares"), at the sole discretion of NHC and NHA, on the maturity date. The number of Conversion Shares will be based on a price per share equal to the quotient obtained by dividing the conversion amount by the volume weighted average price of the common shares on the New York Stock Exchange (NYSE) in the trailing ten trading days prior to the maturity date. There are no pre-payment penalties.

In February 2018, subsequent to the reporting period, the Company entered into a settlement agreement in connection with contract disputes that arose during the year with the sellers of the Company's acquisition of AZ Vein. This settlement resulted in the derecognition of certain liabilities, including the convertible promissory note of $2.25 million discussed herein. See Note 3 - Business Acquisitions for more information.

Convertible Promissory Note - HVC

In conjunction with our purchase of HVC, we entered into a $5.0 million convertible promissory note. The convertible promissory matures on March 8, 2019, bears interest at 5% per annum and is payable in two equal installments over a two -year period. The convertible promissory note (outstanding principal but excluding accrued and unpaid interest) can be converted into common shares of the Company (the "Conversion Shares"), at the sole discretion of the Company, on the maturity date. The number of Conversion Shares will be based on a price per share equal to the quotient obtained by dividing the conversion amount by the volume weighted average price of the common shares on the NYSE in the trailing ten trading days prior to the maturity date. There are no pre-payment penalties.

Convertible Promissory Note - Elite

In conjunction with our purchase of Elite, we entered into a $3.5 million convertible promissory note. The convertible promissory note matures on November 15, 2019, bears interest at 6.75% per annum and is payable in three installments over a two year period. The interest payments are due quarterly. The promissory note (outstanding principal but excluding accrued and unpaid interest) may be converted into common shares of the Company (the "Conversion Shares"), only upon the occurrence of both (i) default by Maker, as defined in the promissory note, and (ii) the election of the Sellers as defined in the promissory note. The number of Conversion Shares will be based on a price per share equal to the quotient obtained by dividing the conversion amount by the lesser of (i) the closing bid price of the common shares on the trading day immediately prior to the conversion date, or (ii) the volume weighted average price of the common shares on NYSE in the trailing ten trading days prior to the maturity date. There are no pre-payment penalties.

Debt at December 31, 2017 consisted of the following ( *in thousands* ):

| | 2017 | 2016 |
|---|---|---|
| Lines of credit | $ 18,000 | $ 15,000 |
| Term loan | 100,488 | 52,500 |
| Convertible promissory notes | 8,500 | 2,250 |
| Gross debt | 126,988 | 69,750 |
| Less: unamortized debt issuance costs | (6,103) | (1,957) |
| Debt, net of unamortized debt issuance costs | 120,885 | 67,793 |
| Less: current maturities of debt, net of unamortized debt issuance costs | (8,016) | (2,220) |
| Long-term debt, net | $ 112,869 | $ 65,573 |

Future maturities of debt as of December 31, 2017 are as follows ( *in thousands* ):

| **Year ending December 31,** | | |
|---|---|---|
| 2018 | $ | 10,032 |
| 2019 | | 9,375 |
| 2020 | | 5,125 |
| 2021 | | 62,456 |
| 2022 | | 40,000 |
| Total | $ | 126,988 |

**NOTE 13 - OPERATING LEASES**

The Company occupies ASC, specialty surgical hospital, multi-specialty clinic and corporate business spaces under operating lease agreements. The Company also leases certain medical equipment. The minimum rental commitments under non-cancellable operating leases, with terms in excess of one year subsequent to December 31, 2017 , are as follows ( *in thousands* ):

| **Year ending December 31,** | | |
|---|---|---|
| 2018 | $ | 15,848 |
| 2019 | | 14,739 |
| 2020 | | 12,989 |
| 2021 | | 12,621 |
| 2022 | | 9,442 |
| Thereafter | | 55,477 |
| Total future commitment | | 121,116 |
| Less: minimum sublease income to be received | | (19,302) |
| Total future commitment, net of sublease income | $ | 101,814 |

Rent expense was $13.2 million , $11.0 million and $9.1 million for the years ended December 31, 2017 , 2016 and 2015 , respectively.

The Company subleases certain facility spaces and records rental income in other income in our consolidated statements of income. The future minimum rentals with terms in excess of one year subsequent to December 31, 2017 , are as follows ( *in thousands* ):

| **Year ending December 31,** | | |
|---|---|---|
| 2018 | $ | 2,471 |
| 2019 | | 2,535 |
| 2020 | | 2,295 |
| 2021 | | 2,200 |
| 2022 | | 1,683 |
| Thereafter | | 8,118 |
| Total future sublease income | $ | 19,302 |

**NOTE 14 - CAPITAL LEASES**

The Company holds various capital leases for medical equipment which contain bargain purchase options at the end of the lease terms. The remaining minimum capital lease obligations, with terms in excess of one year subsequent to December 31, 2017 , are as follows ( *in thousands* ):

| **Year ending December 31,** | | |
|---|---|---|
| 2018 | $ | 4,239 |
| 2019 | | 3,426 |
| 2020 | | 2,332 |
| 2021 | | 2,284 |
| 2022 | | 1,925 |
| Thereafter | | 5,670 |
| Total minimum rentals | | 19,876 |
| Less amounts representing interest | | (3,960) |
| Total Capital lease obligations | $ | 15,916 |

Medical equipment with a cost of $12.1 million and $11.0 million were held under capital leases for the years ended December 31, 2017, and 2016, respectively. Capital leases had accumulated depreciation of $3.2 million and $3.7 million for the years ended December 31, 2017 and 2016 .

**NOTE 15 - FAIR VALUE MEASUREMENTS**

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including warrant and stock option derivative liabilities. There have been no transfers between fair value measurement levels during the years ended December 31, 2017 , 2016 or 2015.

The following table summarizes our assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016 , aggregated by the level in the fair value hierarchy within which those measurements fall ( *in thousands* ):

| | **Fair Value Measurements Using** | | | |
|---|---|---|---|---|
| | **Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
| December 31, 2016: | | | | |
| Warrant and stock option derivative liabilities | $ — | $ — | $ 902 | $ 902 |
| Total | $ — | $ — | $ 902 | $ 902 |
| December 31, 2017: | | | | |
| Warrant and stock option derivative liabilities | $ — | $ — | $ 384 | $ 384 |
| Total | $ — | $ — | $ 384 | $ 384 |

In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified as Level 3 within the valuation hierarchy. Level 3 liabilities that were measured at estimated fair value on a recurring basis consist of warrant and stock option derivative liabilities.

The estimated fair values of the warrant and stock option derivative liabilities were measured using the Black-Scholes valuation model, refer to Note 18 - Warrants and options liabilities . Due to the nature of valuation inputs, the valuation of the warrants is considered a Level 3 measurement.

The estimated fair value of our other long-term debt instruments, approximate their carrying amounts as the interest rates approximate our current borrowing rate for similar debt instruments of comparable maturity, or have variable interest rates.

The remaining outstanding warrants and stock options expired in May of 2017. The balance of the Company's current portion of warrant and stock option derivative liabilities is zero as of December 31, 2017. All remaining liabilities are long-term.

**NOTE 16 - SHAREHOLDERS' EQUITY**

In total, the Company has issued 78,183,802 and 77,805,014 of its common shares as of December 31, 2017 and 2016 , respectively. The Company has unlimited authorized shares. There is no par value assigned to our common shares.

On June 30, 2015, the Company, entered into an agreement with Athas, certain seller parties (the “Athas Sellers”) to the Membership Interest Purchase Agreement dated as of November 26, 2014 (the “MIPA”) and certain other parties. Pursuant to the Agreement, the Athas Sellers agreed to reduce by 836,029 the number of common shares, in the aggregate, that were to be issued on the first and second anniversaries of the MIPA’s closing as contingent purchase price payments (the “Contingent Shares”). In addition, the Agreement accomplished (i) the financing of a $2.7 million debt owed by counterparties to the Agreement, (ii) recoupment of $1.7 million of indemnified expenses, and (iii) indemnification of counterparties with respect to litigation. Also pursuant to the Agreement, the Company accelerated the issuance of the remaining 3,830,638 Contingent Shares, resulting in a $5.7 million adjustment to additional paid in capital.

Shareholder equity activity for 2016 is primarily related to employee share based compensation, discussed further in Note 17 - Share based compensation and the issuance of 750,000 unregistered common shares in conjunction with the acquisition of AZ Vein, discussed further in Note 3 - Business Acquisitions.

Shareholder equity activity for 2017 is primarily related to employee share based compensation, discussed further in Note 17 - Share based compensation and the issuance of 378,788 unregistered common shares in conjunction with the acquisition of HVC and Elite, discussed further in Note 3 - Business Acquisitions.

**NOTE 17 - SHARE BASED COMPENSATION**

*Restricted Share Unit Plan*

During 2008, the Board of Directors (BOD) of the Company approved the adoption of a Restricted Share Unit (RSU) Plan for employees. Restricted Share Units (RSUs) may be granted to employees of Nobilis at the sole discretion of the BOD.

Subject to the BOD’s ability to accelerate the vesting of the RSUs if it determines circumstances so warrant, each RSU would generally vest in full on the third anniversary of the date of grant; provided that if there is a change of control of the Company prior to the vesting date of the RSUs and a participant is terminated (or resigns for good reason) within six months following such change of control, a pro rata portion of their unvested RSUs would vest up to the date of the change of control.

Upon vesting of his or her RSUs, a participant would be entitled to receive on the vesting date, at the discretion of the BOD either: (a) a lump sum cash payment equal to the number of RSUs multiplied by an average closing price of the common shares on the Toronto Stock Exchange on the redemption date, net of any applicable deductions and withholdings; or (b) that number of common shares equal to the number of RSUs credited to the participant’s RSU account, such common shares to be issued from the Company. The participant receives the benefit on, or as soon as practicable after, the vesting date, but in no event later than 90 days after the vesting date. Unlike share options, RSUs do not require the payment of any monetary consideration to the Company.

Whenever cash dividends are paid on the Company’s common shares, dividend equivalents in the form of additional RSUs would be credited to each Participant and will become part of his or her award under the RSU Plan. The RSUs representing dividend equivalents would vest and be paid at the same time and in the same manner as the RSUs to which the dividend equivalents pertain.

In the event of a Participant’s termination of employment, voluntary or by cause, with the Company prior to any vesting date, the Participant’s rights to any unvested RSUs would be immediately and irrevocably forfeited. If the Participant’s employment with the Company terminates on account of death or disability or is terminated by the Company without cause prior to any vesting date, the Participant would become vested in a prorated portion of his or her unvested RSUs, based on the number of months that have elapsed in the then current vesting period as of the date of termination.

During the year ended December 31, 2015, two key executives experienced triggering events, as defined in their employee agreements, which accelerated all unrecognized share compensation expense on their outstanding RSUs. As a result of this acceleration, the Company recognized a non-cash charge of $4.5 million of share compensation expense.

The Company recorded total compensation expense relative to RSU’s of nil for both years ended December 31, 2017 and 2016, and $5.4 million for the years ended December 31, 2015.

There were no RSU grants during the year. The Company had no outstanding RSU’s at December 31, 2017 or 2016 , respectively.

*Share Option Plan*

In 2012, the BOD approved the adoption of a Share Option Plan for insiders, employees, and service providers (or "Participants" or "Optionees"). Share options may be granted at the sole discretion of the BOD. The exercise price of an option is determined by the BOD at the time of grant and shall not be less than the current market price. The term of each option is determined by the BOD and shall not exceed 10 years. If an Optionee shall cease to be a Participant for cause, no option held by such Optionee shall be exercisable following the date on which such Optionee ceases to be a Participant.

If an Optionee ceases to be a Participant for any reason other than for cause, any option held by such Optionee at such time shall remain exercisable in full at any time, and in part from time to time, for a period of 90 days after the date on which the Optionee ceases to be a Participant. If the Participant's employment with the Company terminates on account of death, any option held by such Participant at the date of death shall be exercisable in whole or in part only by the person or persons to whom the rights of the Participant's options pass to by will or laws of descent.

The maximum number of RSUs and share options that may be issued under the combined plans is equal to 20.0% of the Company's issued and outstanding common shares.

The Company granted a total of 2,590,000 share options during the year ended December 31, 2017 . Of the options issued, 925,000 of those vested immediately, 180,000 vest ratably over a two year period, and 1,485,000 vest ratably over a three year period. During the year, 1,270,000 were forfeited, with various vesting periods.

Under the current share option plan, the Company had approximately 6.8 million share options available for future issuance as of December 31, 2017 .

The following table summarizes stock option activity for the years ended December 31, 2017 and 2016 :

| | Shares Underlying Options | Weighted-Average Exercise Price | Weighted-Average Remaining Life (years) |
|---|---|---|---|
| Outstanding at January 1, 2016 | 5,465,000 | $ 2.97 | 9.2 |
| Granted | 4,357,075 | $ 2.06 | 9.5 |
| Exercised | (1,283,750) | $ 2.39 | — |
| Forfeited | (994,300) | $ 3.45 | — |
| Outstanding at December 31, 2016 | 7,544,025 | $ 2.61 | 9.0 |
| Exercisable at December 31, 2016 | 2,768,817 | $ 2.45 | 8.6 |
| Outstanding at January 1, 2017 | 7,544,025 | $ 2.61 | 9.0 |
| Granted | 2,590,000 | $ 1.50 | 9.8 |
| Exercised | — | $ — | — |
| Forfeited | (1,270,000) | $ 3.41 | — |
| Outstanding at December 31, 2017 | 8,864,025 | $ 2.17 | 8.5 |
| Exercisable at December 31, 2017 | 5,120,307 | $ 2.24 | 8.2 |

The table above includes 500,000 options issued to non-employees, all of which are exercisable, and all are still outstanding at December 31, 2017 . See Note 18 - Warrants and options liabilities for discussion regarding the accounting and classification of these options in the balance sheet.

The total intrinsic value of share options exercised was nil and $1.6 million for the years ended December 31, 2017 and 2016 , respectively. There were no options exercised during 2017. The total intrinsic value for all in-the-money vested outstanding stock options at December 31, 2017 and 2016 was nominal and $0.8 million , respectively. Assuming all stock options outstanding at December 31, 2017 were vested, the total intrinsic value of the in-the-money outstanding stock options would have been nominal .

The Company recorded total stock compensation expense relative to employee stock options of $2.7 million , $6.0 million and $6.1 million for the years ended December 31, 2017 , 2016 and 2015, respectively.

The fair values of the employee share options used in recording compensation expense are computed using the Black-Scholes option pricing model ("Black-Scholes"). The following table below shows the assumptions used in the model for options awarded during the years ended December 31, 2017 , 2016 , and 2015:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Expected price volatility | 86% - 91% | 86% - 117% | 113% - 122% |
| Risk free interest rate | 1.78% - 2.27% | 1.03% - 2.20% | 1.34% - 1.87% |
| Expected annual dividend yield | —% | —% | $ — |
| Expected option term (years) | 5 - 6 | 5 - 6 | 5 - 6 |
| Expected forfeiture rate | 3.1% - 11.6% | 0.5% - 11.6% | 1.3% - 5.0% |
| Grant date fair value per share | $0.91 - $1.81 | $1.41 - $2.41 | $2.53 - $6.10 |
| Grant date exercise price per share | $1.32 - $2.32 | $1.92 - $2.82 | $2.97 - $6.31 |

For stock options, the Company recognizes share-based compensation net of estimated forfeitures and revises the estimates in the subsequent periods if actual forfeitures differ from the estimates. Forfeiture rates are estimated based on historical experience as well as expected future behavior.

**NOTE 18 - WARRANTS AND OPTIONS LIABILITIES**

*Warrants and Options Issued in Private Placements*

The Company issued warrants and compensatory options in connection with private placements completed in December 2013, September 2014, and May 2015. These warrants and options have exercise prices denominated in Canadian dollars and as such may not be considered indexed to our stock which is valued in U.S. dollars. Hence, these warrants and options are classified as liabilities under the caption “Warrants and Options Liability” and recorded at estimated fair value at each reporting date, computed using the Black-Scholes valuation method. Changes in the liability from period to period are recorded in the consolidated statements of income under the caption “Change in fair value of warrant and stock option derivative liabilities”.

The estimated fair values of warrants and options accounted for as liabilities were determined on the date of the private placements and at each balance sheet date following using the Black-Scholes pricing model with the following inputs:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Risk free interest rate | 0.62% | 0.26% - 0.62% | 0.00% - 0.65% |
| Expected life in years | 0.15 | 0.25 - 1.15 | 0.25 - 2.0 |
| Expected volatility | 63% | 71% - 112% | 71% - 96% |
| Expected dividend yield | —% | —% | —% |

The changes in fair value of the warrants and options (excluding non-employees) liability during the years ended December 31, 2017 , 2016 and 2015 were as follows ( *in thousands* ):

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Balance at beginning of year | $ 3 | $ 2,109 | $ 6,657 |
| Issuance of warrants and options | — | — | 12,797 |
| Transferred to equity upon exercise | — | — | (9,050) |
| Change in fair value recorded in earnings | (3) | (2,106) | (8,295) |
| Balance at December 31, 2017 and 2016 | $ — | $ 3 | $ 2,109 |

As of December 31, 2017 , there were no warrants or options outstanding related to the private placements discussed above. The remaining outstanding warrants and stock options expired in May of 2017. The balance of the Company's warrant and stock option derivative liabilities is nil as of December 31, 2017 .

*Options Issued to Non-Employees*

In 2014, the Company issued 650,000 options to professionals providing services to the organization. These professionals do not meet the definition of an employee under U.S. GAAP. At December 31, 2017 , there were 500,000 options outstanding, all of which are exercisable. During the year ended December 31, 2017, one of the two non-employee professionals became an employee of the Company. At this time, the Company revalued the associated 150,000 shares and reclassified $0.1 million out of the liability and into equity.

Under U.S. GAAP, the value of these option awards is determined at the performance completion date. The Company recognizes expense for the estimated total value of the awards during the period from their issuance until performance completion since the professional services are being rendered during this time. The total expense recognized is adjusted to the final value of the award as determined on the performance completion date.

The estimated values of the option awards are determined using the Black Scholes option pricing model with the following inputs:

| | Years ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Risk free interest rate | 1.50% - 1.98% | 0.86% - 1.76% | 0.26% - 1.85% |
| Expected life in years | 3 | 4 - 5 | 1 - 6 |
| Expected volatility | 81% - 84% | 99% - 118% | 74% - 121% |
| Expected dividend yield | —% | —% | —% |

For the year ended December 31, 2017, the Company recorded a recovery for non-employee stock options of a nominal amount and a nominal expense for non-employee stock options. The Company recorded an expense for non-employee stock options of $0.1 million and $1.7 million for the year ended December 31, 2016 and 2015 , respectively.

The changes fair value of the liability related to vested yet unexcersised options issued to non-employees during the years ended December 31, 2017 , 2016 and 2015were as follows ( *in thousands* ):

| | **2017** | **2016** | **2015** |
|---|---|---|---|
| Balance at beginning of year | $ 899 | $ 841 | $ — |
| Vested during the period | (109) | 533 | 1,531 |
| Change in fair value recorded in earnings | (406) | (475) | (690) |
| Balance as of December 31, 2017 and 2016 | $ 384 | $ 899 | $ 841 |

Options issued to non-employees are reclassified from equity to liabilities on the performance completion date. Under U.S. GAAP, such options may not be considered indexed to our stock because they have exercise prices denominated in Canadian dollars. Hence, these will be classified as liabilities under the caption “Warrant and stock option liabilities” and recorded at estimated fair value at each reporting date, computed using the Black-Scholes valuation method. Changes in the liability from period to period will be recorded in the consolidated statements of income under the caption “Change in fair value of warrant and stock option derivative liabilities”. At December 31, 2017 , there were 500,000 unexercised non-employee options requiring liability classification.

**NOTE 19 - NONCONTROLLING INTERESTS**

In terests held by unaffiliated parties in consolidated entities are reflected in noncontrolling interest, which represents the noncontrolling partners' share of the underlying net assets of our consolidated subsidiaries. Noncontrolling interest that is not redeemable is reported in the equity section of the consolidated balance sheets.

Agreements with the third party equity owners in NHC - ASC Dallas and First Nobilis give these owners limited rights to require the Company to repurchase their equity interests upon the occurrence of certain events, none of which were probable of occurring as of December 31, 2017 and 2016. The contingently redeemable noncontrolling interests associated with these entities are classified in the Company's balance sheet as "temporary" or mezzanine equity. Changes in contingently redeemable noncontrolling interests follow ( *in thousands* ):

| | NHC - ASC Dallas | First Nobilis | Total |
|---|---|---|---|
| Balance at January 1, 2016 | $ 3,393 | $ 8,832 | $ 12,225 |
| Distributions | (2,928) | (599) | (3,527) |
| Net (loss) income attributable to noncontrolling interests | (68) | 5,674 | 5,606 |
| Total contingently redeemable noncontrolling interests at December 31, 2016 | $ 397 | $ 13,907 | $ 14,304 |
| | | | |
| Balance at January 1, 2017 | $ 397 | $ 13,907 | $ 14,304 |
| Distributions | — | — | — |
| Net income attributable to noncontrolling interests | 149 | 2,708 | 2,857 |
| Total contingently redeemable noncontrolling interests at December 31, 2017 | $ 546 | $ 16,615 | $ 17,161 |

Certain of our consolidated subsidiaries that are less than wholly owned meet the definition of VIEs, and we hold voting interests in all such entities. We consolidate the activities of VIEs for which we are the primary beneficiary. In order to determine whether we own a variable interest in a VIE, we perform qualitative analysis of the entity's design, organizational structure, primary decision makers and relevant agreements. Such variable interests include our voting interests, and may also include other interests and rights, including those gained through management contracts.

Since our core business is the management and operation of health care facilities, our subsidiaries that are determined to be VIEs represent entities that own, manage and operate such facilities. Voting interests in such entities are typically owned by us, by physicians practicing at these facilities (or entities controlled by them) and other parties associated with the operation of the facilities. In forming such entities, we typically seek to retain operational control and, as a result, in some cases, voting rights we hold are not proportionate to the economic share of our ownership in these entities, which causes them to meet the VIE definition. We consolidate such VIEs if we determine that we are the primary beneficiary because (i) we have the power to direct the activities that most significantly impact the economic performance of the VIE via our rights and obligations associated with the management and operation of the VIE's health care facilities, and (ii) as a result of our obligation to absorb losses and the right to receive residual returns that could potentially be significant to the VIE, which we have through our equity interests.

The following table summarizes the carrying amount of the assets and liabilities of our material VIE's included in the Company's consolidated balance sheets at December 31, 2017 and 2016 ( *in thousands* ):

| | 2017 | 2016 |
|---|---|---|
| Total cash and short term investments | $ 1,709 | $ 3,445 |
| Total accounts receivable | 25,385 | 18,845 |
| Intercompany *(1)* | 9,021 | 8,739 |
| Total other current assets | 1,918 | 1,664 |
| Total property and equipment | 15,457 | 16,804 |
| Total other assets | 190 | 190 |
| Total assets | $ 53,680 | $ 49,687 |
| | | |
| Total accounts payable | $ 3,617 | $ 4,119 |
| Total other liabilities | 1,662 | 5,263 |
| Intercompany *(1)* | 41,201 | 39,391 |
| Total accrued liabilities | 14,057 | 11,538 |
| Long term - capital lease | 11,407 | 11,169 |
| Noncontrolling interest | (9,924) | (8,892) |
| Total liabilities | $ 62,020 | $ 62,588 |

*(1)* These intercompany balances are due to/from other Nobilis entities and eliminate upon consolidation of Nobilis Health Corp. The intercompany liabilities net of receivables indicate the VIE's indebtedness to the Company and represents the amounts the Company has advance to these entities over the past years to fund operations.

## NOTE 20 - EARNINGS PER SHARE

Basic net earnings attributable to Nobilis common shareholders, per common share, excludes dilution and is computed by dividing net earnings attributable to Nobilis commons shareholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings attributable to Nobilis common shareholders, per common share, is computed by dividing net earnings attributable to Nobilis common shareholders by the weighted-average number of common shares outstanding during the period plus any potential dilutive common share equivalents, including shares issuable upon the vesting of restricted stock awards, stock option awards and stock warrants as determined under the treasury stock method or awards issued from debt conversions under the if converted method.

A detail of the Company's earnings per share is as follows ( *in thousands except for share and per share amounts* ):

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Basic: | | | |
| Net income attributable to Nobilis Health Corp. | $ 3,797 | $ 6,449 | $ 50,840 |
| Weighted average common shares outstanding | 77,852,752 | 76,453,128 | 67,015,387 |
| Net income per common share | $ 0.05 | $ 0.08 | $ 0.76 |
| | | | |
| Diluted - treasury stock method: | | | |
| Net income attributable to Nobilis Health Corp. | $ 3,797 | $ 6,449 | $ 50,840 |
| Weighted average common shares outstanding | 77,852,752 | 76,453,128 | 67,015,387 |
| Dilutive effect of stock options, warrants, RSU's | 335,845 | 1,109,367 | 8,217,396 |
| Weighted average common shares outstanding diluted (treasury method) | 78,188,597 | 77,562,495 | 75,232,783 |
| Net income per fully diluted share | $ 0.05 | $ 0.08 | $ 0.68 |
| | | | |
| Diluted - if converted method: | | | |
| Net income attributable to Nobilis Health Corp. | $ 3,797 | $ 6,449 | $ 50,840 |
| Weighted average common shares outstanding | 77,852,752 | 76,453,128 | 67,015,387 |
| Dilutive effect of convertible debt | 2,631,579 | — | — |
| Weighted average common shares outstanding diluted (if converted method) | 80,484,331 | 76,453,128 | N/A |
| Net income per fully diluted share | $ 0.05 | $ 0.08 | N/A |

Included in the diluted shares "if converted method" calculation and in conjunction with the following acquisitions, there are 2.6 million potentially convertible shares related to the Convertible Promissory Notes issued to the sellers of HVC. There were none for the year ended December 31, 2016 as their effect would have been anti-dilutive.

## NOTE 21 - EMPLOYEE 401K PLAN

Substantially all of our employees, upon qualification, are eligible to participate in our defined contribution 401(k) plan (the "Plan"). Under the Plan, employees may contribute a portion of their eligible compensation, and the Company matches such contributions annually up to a maximum percentage for participants actively employed, as defined by the Plan documents. Plan expenses were approximately $1.1 million , $0.8 million and $0.4 million for the years ended December 31, 2017 , 2016 and 2015, respectively. Such amounts are reflected within both the operating expenses: salaries and benefits and corporate costs: salaries and benefits line items within the accompanying consolidated statements of income.

**NOTE 22 - INCOME TAXES**

The components of income (benefit) expense for the years-ended December 31, 2017 , 2016 and 2015 are as follows ( *in thousands* ):

| | Deferred | Current | Total |
|---|---|---|---|
| **2017** | | | |
| Federal | $ 11,695 | $ 56 | $ 11,751 |
| States and Local | (12) | 1,261 | 1,249 |
| Foreign | (742) | — | (742) |
| Change in deferred tax asset valuation allowance | 742 | — | 742 |
| Total | $ 11,683 | $ 1,317 | $ 13,000 |
| **2016** | | | |
| Federal | $ 3,625 | $ 23 | $ 3,648 |
| States and Local | (242) | 1,081 | 839 |
| Foreign | (259) | — | (259) |
| Change in deferred tax asset valuation allowance | 259 | — | 259 |
| Total | $ 3,383 | $ 1,104 | $ 4,487 |
| **2015** | | | |
| Federal | $ 8,215 | $ 509 | $ 8724 |
| States and Local | — | 1,330 | 1,330 |
| Foreign | — | — | — |
| Change in deferred tax asset valuation allowance | (33,250) | — | (33,250) |
| Total | $ (25,035) | $ 1,839 | $ (23,196) |

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 U.S. federal income tax rate of 34% to pre-tax income. Though the Company was incorporated in British Columbia, all of the Company's subsidiaries are incorporated in the United States. Therefore, the Company reconciles the income before income taxes for U.S. tax purposes ( *in thousands, except percentages* ):

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income before income tax | $ 23,281 | $ 11,589 | $ 40,737 |
| U.S. federal income tax rate | 34% | 35% | 34% |
| Expected U.S. federal income tax (recovery) | 7,916 | 4,056 | 13,851 |
| Permanent differences / discrete items | (86) | (791) | (1,873) |
| State income tax (net of federal benefit) | 706 | 585 | 649 |
| Valuation allowance | 742 | 259 | (33,250) |
| Change of federal tax rate | 6,160 | — | — |
| Noncontrolling interests | (2,054) | 7 | (4,106) |
| Others | (384) | 371 | 1,533 |
| Total income tax expense (benefit) | $ 13,000 | $ 4,487 | $ (23,196) |

The table below sets forth the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities that are reported in our consolidated balance sheets ( *in thousands* ):

| | 2017 | 2016 |
|---|---|---|
| Deferred tax assets (liabilities) : | | |
| Goodwill and fixed assets | $ 1,555 | $ 8,768 |
| Intangibles | 697 | 785 |
| Net operating loss carryforwards - U.S. | 2,836 | 6,014 |
| Interest carry-forward | — | 1,405 |
| Net operating loss carryforwards - Foreign | 8,405 | 7,663 |
| Allowance for bad debts | 382 | 265 |
| Equity compensation | 2,872 | 4,074 |
| Accrued bonus | 530 | 325 |
| Accrued to cash - 481a | (163) | (532) |
| Other | (120) | 16 |
| AMT credit | 588 | 532 |
| Deferred lease liability | 657 | — |
| Retention tax credit | 117 | — |
| Valuation allowance | (8,405) | (7,663) |
| Net deferred tax assets | $ 9,951 | $ 21,652 |

There was a partial valuation allowance as of December 31, 2017 and 2016 , respectively. In assessing the need for a valuation allowance, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income, projections for future taxable income over the periods in which the deferred tax assets are deductible, and the scheduled reversal of deferred tax liabilities, management believes a partial valuation allowance is needed to offset the Canadian net operating loss carryforwards in 2017 and 2016, respectively.

The Company has Canadian net operating loss carryforwards of approximately $33.6 million which will begin to expire in 2028 and U.S. net operating loss carryforwards of approximately $13.5 million which will begin to expire in 2030. On September 30, 2010 the Company issued 18,778,446 common shares to entities controlled by the then Company Chairman resulting in a change of ownership greater than 50% . As a result, the U.S. net operating losses are limited by the Internal Revenue Code Section 382.

The Company files income tax returns in the U.S. federal jurisdiction, Canada federal jurisdiction, and several state jurisdictions. Our federal tax returns for 2016, 2015, and 2014 are open for review by taxing authorities. Our Canada and Texas tax returns for 2016, 2015, 2014, and 2013 are open for review by taxing authorities. The Company is not aware of potential interest, penalties or taxes for federal and Canada income tax returns.

The Company received notification from the Internal Revenue Service (IRS) to examine the December 31, 2014 and 2013 Federal income tax return. In addition, First Nobilis, LLC, a 51% owned entity, received notification from the IRS to examine its December 31, 2014 income tax return. Both cases have been closed with "no change". Based on management tax analysis, the Company did not have any uncertain tax positions at December 31, 2017 and 2016.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 35% to 21%, the elimination of the corporate alternative minimum tax, the acceleration of depreciation, limitations on the deductibility of interest expense and executive compensation, and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system. In accordance with ASC 740, the impact of a change in tax law is recorded in the period of enactment. Consequently, the Company has recorded a tax expense of $6.2 million , primarily due to a re-measurement of deferred tax assets and liabilities at December 22, 2017.

**NOTE 23 - BUSINESS SEGMENTS**

A summary of the business segment information for 2017 , 2016 and 2015 as follows ( *in thousands* ):

| | Year ended December 31, 2017 | | | |
|---|---|---|---|---|
| | Medical | Marketing | Corporate | Total |
| Revenues | $ 282,042 | $ 17,675 | $ — | $ 299,717 |
| Operating expenses | 234,851 | 15,520 | — | 250,371 |
| Corporate expenses | — | — | 27,037 | 27,037 |
| Income (loss) from operations | 47,191 | 2,155 | (27,037) | 22,309 |
| Change in fair value of warrant and option liabilities | — | — | (432) | (432) |
| Interest expense (income) | 1,017 | (11) | 5,001 | 6,007 |
| Other income | (3,882) | 492 | (3,157) | (6,547) |
| Income (loss) before income taxes | $ 50,056 | $ 1,674 | $ (28,449) | $ 23,281 |
| | | | | |
| Other data: | | | | |
| Depreciation and amortization expense | $ 9,600 | $ 1,660 | $ 343 | $ 11,603 |
| Income tax expense | $ 1,165 | $ 135 | $ 11,700 | $ 13,000 |
| Intangible assets, net | $ 54,406 | $ 11,584 | $ — | $ 65,990 |
| Goodwill | $ 97,061 | $ 19,011 | $ — | $ 116,072 |
| Capital expenditures | $ 18,773 | $ 2,753 | $ 301 | $ 21,827 |
| Total assets | $ 352,228 | $ 50,275 | $ 28,535 | $ 431,038 |
| Total liabilities | $ 78,830 | $ 8,733 | $ 128,687 | $ 216,250 |
| Stock consideration given in conjunction with acquisitions | $ 735 | $ — | $ — | $ 735 |
| Convertible promissory note | $ 8,500 | $ — | $ — | $ 8,500 |

| | Year ended December 31, 2016 | | | |
|---|---|---|---|---|
| | Medical | Marketing | Corporate | Total |
| Revenues | 264,642 | 21,102 | — | 285,744 |
| Operating expenses | 227,439 | 17,348 | — | 244,787 |
| Corporate expenses | — | — | 30,919 | 30,919 |
| Income (loss) from operations | 37,203 | 3,754 | (30,919) | 10,038 |
| Change in fair value of warrant and option liabilities | — | — | (2,580) | (2,580) |
| Interest expense | 1,331 | 5 | 2,663 | 3,999 |
| Other income | (2,367) | (353) | (250) | (2,970) |
| Income (loss) before income taxes | $ 38,239 | $ 4,102 | $ (30,752) | $ 11,589 |
| | | | | |
| Other data: | | | | |
| Depreciation and amortization expense | $ 6,716 | $ 1,823 | $ 293 | $ 8,832 |
| Income tax expense | $ 1,067 | $ 155 | $ 3,265 | $ 4,487 |
| Intangible assets, net | $ 6,884 | $ 12,734 | $ — | $ 19,618 |
| Goodwill | $ 43,007 | $ 19,011 | $ — | $ 62,018 |
| Capital expenditures | $ 9,902 | $ — | $ 473 | $ 10,375 |
| Total assets | $ 214,294 | $ 44,942 | $ 46,199 | $ 305,435 |
| Total liabilities | $ 69,753 | $ 6,059 | $ 73,144 | $ 148,956 |
| Stock consideration given in conjunction with acquisitions | $ 2,250 | $ — | $ — | $ 2,250 |
| Convertible promissory note | $ 2,250 | $ — | $ — | $ 2,250 |

| | Year ended December 31, 2015 | | | |
|---|---|---|---|---|
| | Medical | Marketing | Corporate | Total |
| Revenues | $ 205,730 | $ 23,486 | $ — | $ 229,216 |
| Operating expenses | 145,835 | 19,885 | — | 165,720 |
| Corporate expenses | — | — | 31,846 | 31,846 |
| Income (loss) from operations | 59,895 | 3,601 | (31,846) | 31,650 |
| Interest expense | 351 | 54 | 1,192 | 1,597 |
| Change in fair value of warrant and option liabilities | — | — | (8,985) | (8,985) |
| Bargain purchase | (1,733) | — | — | (1,733) |
| Other expense (income) | 488 | 236 | (690) | 34 |
| Income (loss) before income taxes | $ 60,789 | $ 3,311 | $ (23,363) | $ 40,737 |
| | | | | |
| Other data: | | | | |
| Depreciation and amortization expense | $ 3,403 | $ 1,128 | $ 156 | $ 4,687 |
| Income tax expense | $ 898 | $ 238 | $ 703 | $ 1,839 |
| Intangible assets, net | $ 5,462 | $ 14,157 | $ — | $ 19,619 |
| Goodwill | $ 25,822 | $ 19,011 | $ — | $ 44,833 |
| Capital expenditures | $ 3,653 | $ 249 | $ 478 | $ 4,380 |
| Total assets | $ 151,324 | $ 42,159 | $ 48,544 | $ 242,027 |
| Total liabilities | $ 56,407 | $ 3,827 | $ 35,716 | $ 95,950 |

**NOTE 24 - RELATED PARTIES**

In March 2016, the Company acquired an interest in Athelite, a holding company which owns an interest in Dallas Metro, a company formed to provide management services to a hospital outpatient department ("HOPD"). The Athelite investment is accounted for as an equity method investment (refer to Note 4 - Investments in associates). At December 31, 2017 , the Company had $3.8 million in accounts receivable from the HOPD.

As a result of the AZ Vein acquisition in October 2016 and subsequent settlement agreement executed in February 2018 that was previously discussed in Note 3 - Business Acquisitions, an executive of the Company is owed $2.0 million , as of December 31, 2017 . In addition, the Company entered into agreements to lease facility space with the same executive. Facility lease costs were $1.4 million in 2017.

As a result of the Elite acquisition in November 2017, the Company made a payment of $0.8 million related to the purchase of a Company executive's equity in Elite.

*Physician Related Party Transactions*

Nobilis maintains certain medical directorship, consulting and marketing agreements with various physicians who are also equity owners in Nobilis entities. Material related party arrangements of this nature are described below:

- In September 2013, the Company entered into a book deal with a physician equity owner. In March 2015, the Company entered into a marketing agreement with that physician equity owner and a marketing services company owned by the physician equity owner's father. The Company incurred expenses of nil , $2.0 million and $1.7 million as a result of the book deal during the twelve months ended December 31, 2017 , 2016 and 2015, respectively. The Company incurred expenses of nil , $1.2 million , and nil related to the marketing services entity during the twelve months ended December 31, 2017 , 2016 and 2015, respectively. The Company incurred expenses of nil , $1.1 million and $0.7 million related to the Consulting services entity during the twelve months ended December 31, 2017 , 2016 and 2015, respectively.
- In July 2014, the Company entered into a marketing services agreement with a physician equity owner and an entity owned by that physician equity owner's brother. The Company incurred expenses of $0.4 million , $1.3 million and $0.6 million to the entity during the twelve months ended December 31, 2017 , 2016 and 2015, respectively.
- In September 2014, the minority interest holder of a fully consolidated entity, who is also a partial owner of two other hospitals, entered into an ongoing business relationship with the Company. At December 31, 2017 , the Company has a net amount due from these related parties of $6.0 million . In addition, the Company leases certain medical equipment and facility space from these related parties. Equipment lease costs of $2.1 million , $2.2 million and $2.3 million were

incurred during the twelve months ended December 31, 2017 , 2016 and 2015, respectively. Facility lease costs of $1.8 million , $1.8 million and $1.7 million were incurred during the twelve months ended December 31, 2017 , 2016 and 2015, respectively.

- In September 2014, the Company entered into a services agreement with a physician equity owner's wife who has financial interests in a related entity. The Company incurred expenses pursuant to service agreements of nil , $0.5 million and $0.6 million to the entity during the twelve months ended December 31, 2017 , 2016 and 2015, respectively.
- In October 2014, the Company entered into a management agreement with an entity controlled by a physician equity owner. In June 2015, the Company expanded the relationship with this physician equity owner and an entity owned by the physician equity owner's wife to include consulting, marketing, medical supplies, medical directorship and on-call agreements (collectively "service agreements"). The Company incurred expenses of $2.7 million , $2.6 million and $0.8 million in fees owed pursuant to the management agreement to the entity during the twelve months ended December 31, 2017 , 2016 and 2015, respectively. The Company has incurred expenses of $6.6 million , $7.9 million and $2.9 million in fees owed pursuant to the service agreements to the entity during the twelve months ended December 31, 2017 , 2016 and 2015, respectively.
- In September 2014, the Company entered into a services agreement with an executive officer's brother who has financial interests in a related entity. The Company incurred expenses pursuant to service agreements of $0.2 million , nil and nil to the entity during the twelve months ended December 31, 2017 , 2016 and 2015, respectively.
- In April 2017, the minority interest holder of a fully consolidated entity, who is also a member of the Company's board of directors, entered into an ongoing business relationship with the Company. The Company incurred expenses of $1.3 million and $0.6 million during the twelve months ended December 31, 2017 and 2016, respectively. At December 31, 2017 , the Company has a net amount due to this related party of nil .

## NOTE - 25 COMMITMENTS AND CONTINGENCIES

*Litigation*

In the normal course of our business, we are subject to legal proceedings brought by or against us and our subsidiaries, including claims for damages for personal injuries, medical malpractice, breach of contracts, and employment related claims. In certain of these actions, plaintiffs' requests payment for damages, including punitive damages that may not be covered by insurance. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially impact the financial position, results of operations or liquidity of the Company.

A statement of claim (complaint), Vince Capelli v. Nobilis Health Corp. et. al, was filed on January 8, 2016 in the Ontario Superior Court of Justice under court file number CV-16-544173 naming Nobilis Health Corp., certain current and former officers and the Company’s former auditors as defendants. The statement of claim seeks to advance claims on behalf of the plaintiff and on behalf of a class comprised of certain of our shareholders related to, among other things, alleged certain violations of the Ontario Securities Act and seeks damages in the amount of $80 million Canadian dollars plus interest. The defendants intend to vigorously defend against these claims. This is a highly defensible case. We are confident in prevailing at trial or achieve a favorable settlement.

## NOTE 26 - SUBSEQUENT EVENTS

In February 2018, subsequent to the reporting period, the Company entered into a settlement agreement in connection with contract disputes that arose during the year with the sellers of the Company's acquisition of AZ Vein previously discussed in Note 3 - Business Acquisitions.

SUPPLEMENTAL FINANCIAL INFORMATION

SELECTED QUARTERLY FINANCIAL DATA
( *UNAUDITED* )

The following table presents certain quarterly statement of earnings data for the years ended December 31, 2017, 2016 and 2015. The quarterly statement of earnings data set forth below was derived from the Company's unaudited financial statements and includes all adjustments, consisting of normal recurring adjustments, which the Company considers necessary for a fair presentation thereof. Results of operations for any particular quarter are not necessarily indicative of results of operations for a full year or predictive of future periods.

| | **Year ended December 31, 2017** | | | |
|---|---|---|---|---|
| | **First** | **Second** | **Third** | **Fourth** |
| | *(in thousands, except per share amounts)* | | | |
| Revenues, net | $ 68,302 | $ 79,962 | $ 64,652 | $ 86,801 |
| Operating (loss) income | $ (3,135) | $ 7,385 | $ 1,283 | $ 16,776 |
| Net (loss) income | $ (2,206) | $ 3,255 | $ 1 | $ 9,231 |
| Net income (loss) attributable to noncontrolling | $ 192 | $ 1,670 | $ (1,013) | $ 5,635 |
| Net (loss) income attributable to Nobilis Health Corp | $ (2,398) | $ 1,585 | $ 1,014 | $ 3,596 |
| Net (loss) income per common share attributable to Nobilis Health Corp. | | | | |
| Basic | $ (0.03) | $ 0.02 | $ 0.01 | $ 0.05 |
| Diluted | $ (0.03) | $ 0.02 | $ 0.01 | $ 0.05 |
| Total Assets | $ 308,161 | $ 310,089 | $ 317,099 | $ 431,038 |

| | **Year ended December 31, 2016** | | | |
|---|---|---|---|---|
| | **First** | **Second** | **Third** | **Fourth** |
| | *(in thousands, except per share amounts)* | | | |
| Revenues | $ 51,273 | $ 61,871 | $ 70,683 | $ 101,917 |
| Operating (loss) income | $ (9,694) | $ 55 | $ (1,101) | $ 20,778 |
| Net (loss) income | $ (6,764) | $ 2,515 | $ (2,263) | $ 13,614 |
| Net (loss) income attributable to noncontrolling | $ (1,799) | $ (2,291) | $ 496 | $ 4,247 |
| Net (loss) income attributable to Nobilis Health Corp. | $ (4,965) | $ 4,806 | $ (2,759) | $ 9,367 |
| Net (loss) income per common share attributable to Nobilis Health Corp. | | | | |
| Basic | $ (0.07) | $ 0.06 | $ (0.04) | $ 0.13 |
| Diluted | $ (0.07) | $ 0.06 | $ (0.04) | $ 0.13 |
| Total Assets | $ 228,167 | $ 232,940 | $ 240,983 | $ 305,435 |

| | **Year ended December 31, 2015** | | | |
|---|---|---|---|---|
| | **First** | **Second** | **Third** | **Fourth** |
| | *(in thousands, except per share amounts)* | | | |
| Revenues, net | $ 37,851 | $ 48,867 | $ 52,483 | $ 90,015 |
| Operating income | $ 3,883 | $ 1,136 | $ 3,051 | $ 23,580 |
| Net income | $ 15 | $ 3,379 | $ 13,318 | $ 47,221 |
| Net income attributable to noncontrolling | $ 4,497 | $ 3,745 | $ 2,375 | $ 2,476 |
| Net (loss) income attributable to Nobilis Health Corp | $ (4,482) | $ (366) | $ 10,943 | $ 44,745 |
| Net (loss) income per common share attributable to Nobilis Health Corp | | | | |
| Basic | $ (0.07) | $ (0.01) | $ 0.15 | $ 0.61 |
| Diluted | $ (0.07) | $ (0.01) | $ 0.14 | $ 0.58 |
| Total Assets | $ 104,480 | $ 153,518 | $ 105,332 | $ 242,027 |

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

There were no disagreements with our accountants related to accounting principles or practices, financial statement disclosure, internal controls or auditing scope or procedure during the two fiscal years and subsequent interim periods.

**ITEM 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO"), the principal executive officer, and Chief Financial Officer ("CFO"), the principal financial officer, the Company conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d - 15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended. Based on this evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of the end of December 31, 2017, except for the material weaknesses noted below. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed the evaluation.

**Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in the Exchange Act Rule 13a-15(e) and 15d - 15(e). Internal control over financial reporting refers to a process designed by, or under the supervision of, the CEO and CFO, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Nobilis Health Corp.;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and members of the Board of Directors of Nobilis Health Corp.; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control - Integrated Framework (2013)* .

Based on the Company's assessment, management concluded that the Company maintained effective internal control over financial reporting at December 31, 2017, except for the items noted below.

Management identified the following material weaknesses as of December 31, 2017:

- We did not maintain a sufficient level of review or documentation of approval regarding the Company's management of third-party billing and collections of aged receivables and allowance for doubtful accounts.
- We did not maintain a sufficient level of review or documentation of approval regarding the Company's convertible notes and proforma income taxes associated with business combinations, share based compensation and third-party goodwill and intangibles valuation for annual impairment.

In light of these material weaknesses, management is reviewing and implementing remediation steps to ensure adequate evidence of review and approval within our internal documentation. Management believes that these efforts will effectively remediate these material weaknesses.

Management's assessment of the Company's internal control over financial reporting as of December 31, 2017 excluded the internal control over financial reporting of HVC, DeRosa, and Elite as they were purchased within the current year.

**Changes in Internal Control Over Financial Reporting**

There was no change in the Company’s internal control over financial reporting that occurred during the Company’s fourth quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

**Item 9B. Other Information**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the Nobilis Health Corp. Proxy Statement for our 2017 Annual Meeting of Shareholders.

### Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Nobilis Health Corp. Proxy Statement for our 2017 Annual Meeting of Shareholders.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the Nobilis Health Corp. Proxy Statement for our 2017 Annual Meeting of Shareholders.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the Nobilis Health Corp. Proxy Statement for our 2017 Annual Meeting of Shareholders.

### Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the Nobilis Health Corp. Proxy Statement for our 2017 Annual Meeting of Shareholders.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Annual Report or incorporated by reference:

(1) The consolidated financial statements of the Company included in Part II, Item 8-Financial Statements of this Annual Report

(2) The exhibits of the Company listed below under Item 15(b); all exhibits are incorporated by reference to a prior filing as indicated, unless designated by a *.

(a) Exhibits

| Exhibit No. | Description |
|---|---|
| **3.1** | Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Nobilis Health Corp.'s Registration Statement on Form 10 filed with the SEC on August 26, 2014) |
| **3.2** | Notice of Articles (incorporated by reference to Exhibit 3.2 to Nobilis Health Corp.'s Registration Statement on Form 10 filed with the SEC on August 26, 2014) |
| **3.3** | Articles (incorporated by reference to Exhibit 3.1 to Nobilis Health Corp.'s Registration Statement on Form 10 filed with the SEC on August 26, 2014) |
| **4.1** | Warrant Indenture dated May 13, 2015 by and between Nobilis Health Corp. and CST Trust Company (incorporated by reference to Exhibit 4.1 to Nobilis Health Corp.'s Current Report on Form 8-K dated May 13, 2015 filed with the SEC on May 15, 2015) |
| **10.1** | Assignment and Assumption of Base Year Medical Office Building between NHSC-Scottsdale, LLC and Brown Medical Center, Inc., dated January 8, 2014 (incorporated by reference to Exhibit 10.5 to Nobilis Health Corp's Registration Statement on Form 10 filed with the SEC on August 26, 2014) |
| **10.2** | Sale and Repurchase Agreement between Northstar Healthcare Inc. and Northstar Healthcare Holding, Inc. dated May 17, 2007 (incorporated by reference to Exhibit 10.1 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 1, filed with the SEC on October 9, 2014) |
| **10.3** | Master Agreement by and between First Surgical Partners Holdings, Inc. and Northstar Healthcare Inc. dated September 2, 2014 (incorporated by reference to Exhibit 10.9 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 1, filed with the SEC on October 9, 2014) |
| **10.4** | Agency Agreement between Northstar Healthcare Inc. and PI Financial Corp. dated September 26, 2014 (incorporated by reference to Exhibit 10.10 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 1, filed with the SEC on October 9, 2014) |
| **10.5** | Amendment to Master Agreement by and between First Surgical Partners Holdings, Inc. and Northstar Healthcare Inc. dated September 2, 2014 (incorporated by reference to Exhibit 10.10 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.6** | Lease Agreement between Cole River Oaks, Ltd. and Northstar Healthcare, Inc. (incorporated by reference to Exhibit 10.11 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.7** | Medical Office Building Lease Agreement between Southwest Professional Building, Ltd. and Microsurgery Institute LLC dated June 1, 2012 (incorporated by reference to Exhibit 10.13 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |

| | |
|---|---|
| **10.8** | Assignment and Assumptions of Lease between Microsurgery Institute LLC and Northstar Healthcare Inc. dated December 1, 2013 (incorporated by reference to Exhibit 10.14 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.9** | Retail Lease Bissonnett Shopping Center, Suite 4811 4803-B Bissonnet, Houston, Texas 77401 between Lenox Hill Holdings, Ltd. and First Street Surgical Center dated January 2005 (incorporated by reference to Exhibit 10.16 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.10** | First Amendment to Lease between Lenox Hill Holdings, Ltd. and First Street Surgical Center dated August 25, 2010 (incorporated by reference to Exhibit 10.17 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.11** | Second Amendment to Lease between Lenox Hill Holdings, Ltd. and First Street Surgical Center dated February 1, 2012 (incorporated by reference to Exhibit 10.18 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.12** | Assignment of Lease between First Street Surgical Center and First Nobilis, LLC dated September 29, 2014 (incorporated by reference to Exhibit 10.20 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.13** | Building Lease between First Street Holdings, Ltd. and First Street Hospital LP dated September 17, 2006 (incorporated by reference to Exhibit 10.21 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.14** | Second Amendment to Lease Agreement First Street Holdings, Ltd. and First Street Hospital LP dated December 1, 2013 (incorporated by reference to Exhibit 10.17 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.15** | Lease Agreement between Lenox Hill Holdings, Ltd. and First Street Hospital, LP dated December 1, 2103 (incorporated by reference to Exhibit 10.24 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.16** | Building Lease between Islington, Ltd. and First Street Surgical Center, LP dated April 1, 2013 (incorporated by reference to Exhibit 10.26 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.17** | First Amendment to Lease between First Street Holdings, Ltd. and First Street Surgical Center, LP dated April 1, 2013 (incorporated by reference to Exhibit 10.27 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.18** | Second Amendment to Lease between First Street Holdings, Ltd. and First Street Surgical Center, LP dated December 1, 2013 (incorporated by reference to Exhibit 10.28 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.19** | Office Space lease between Texas Institute for Eyes, LLC and North American Spine, LLC dated August 5, 2009 (incorporated by reference to Exhibit 10.30 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.20** | First Amendment to Office Space lease between Texas Institute for Eyes, LLC and North American Spine, LLC dated June 22, 2010 (incorporated by reference to Exhibit 10.31 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.21** | Second Amendment to Office Space lease between Texas Institute for Eyes, LLC and North American Spine, LLC dated October 7, 2010 (incorporated by reference to Exhibit 10.32 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |

| | |
|---|---|
| **10.22** | Third Amendment to Office Space lease between Texas Institute for Eyes, LLC and North American Spine, LLC dated June 30, 2011 (incorporated by reference to Exhibit 10.33 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.23** | Membership Interest Purchase Agreement between Northstar Healthcare Subco, LLC, Northstar Healthcare Inc., Athas Health, LLC and the Individual Seller Parties dated November 26, 2014 (incorporated by reference to Exhibit 10.34 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.24** | Registration Rights Agreement dated November 26, 2014 (incorporated by reference to Exhibit 10.37 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.25** | NHC ASC - Dallas, LLC Company Agreement (incorporated by reference to Exhibit 10.38 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.26** | Third Amended and Restated Agreement of Limited Partnership of Medical Ambulatory Surgical Suite, LP (incorporated by reference to Exhibit 10.39 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 2, filed with the SEC on December 23, 2014) |
| **10.27** | Confidential Executive Transition Agreement between Northstar Healthcare Acquisitions and Donald Kramer, dated December 1, 2014 (incorporated by reference to Exhibit 10.42 to Nobilis Health Corp.'s Registration Statement on Form 10, Amendment No. 3, filed with the SEC on January 29, 2015) |
| **10.28** | Lease between FSP Energy Tower I Limited Partnership and Northstar Healthcare Acquisitions, LLC for the lease of the corporate headquarters of Nobilis Health Corp., dated May 20, 2015 (incorporated by reference to Exhibit 10.58 to Nobilis Health Corp.'s Registration Statement on Form S-1 filed with the SEC on August 28, 2015) |
| **10.29** | Employment Agreement dated as of April 30, 2015 by and among Harry J. Fleming, Northstar Healthcare Acquisitions, L.L.C. and Northstar Healthcare Inc. (incorporated by reference to Exhibit 10.59 to Nobilis Health Corp.'s Registration Statement on Form S-1 filed with the SEC on August 28, 2015) |
| **10.30** | Employment Agreement dated as of February 1, 2015 by and among Matthew Maruca, Northstar Healthcare Acquisitions, L.L.C. and Nobilis Health Corp. (incorporated by reference to Exhibit 10.60 to Nobilis Health Corp.'s Registration Statement on Form S-1 filed with the SEC on August 28, 2015) |
| **10.31** | Fifth Amendment to Credit Agreement dated as of May 12, 2016 by and among Northstar Healthcare Acquisitions, L.L.C., the other Credit Parties named therein and Healthcare Financial Solutions, LLC (incorporated by reference to Exhibit 10.1 to Nobilis Health Corp.'s Current Report on Form 8-K dated May 12, 2016 filed with the SEC on May 18, 2016) |
| **10.32** | Limited Waiver Letter dated May 12, 2016 by and between Heealthcare Financial Solutins, LLC and Northstar Healthcare Acquisitions, L.L.C. (incorporated by reference to Exhibit 10.1 to Nobilis Health Corp.'s Current Report on Form 8-K dated May 12, 2016 filed with the SEC on May 18, 2016) |
| **10.33** | First Amendment to Loan Agreement dated as of May 18, 2016 by and between Marsh Lane Surgical Hospital, LLC and LegacyTexas Bank (incorporated by reference to Exhibit 10.1 to Nobilis Health Corp.'s Current Report on Form 8-K dated May 18, 2016 filed with the SEC on May 23, 2016) |
| **10.34** | Revolving Note dated as of May 18, 2016 (incorporated by reference to Exhibit 10.2 to Nobilis Health Corp.'s Current Report on Form 8-K dated May 18, 2016 filed with the SEC on May 23, 2016) |
| **10.35** | Purchase Agreement dated as of August 1, 2016 among Northstar Healthcare Acquisitions, LLC, Nobilis Health Corp., Arizona Center for Minimally Invasive Surgery, LLC, Arizona Vein & Vascular Center, LLC, L. Philipp Wall, M.D., P.C. and L. Philipp Wall (incorporated by reference to Exhibit 10.35 to Nobilis Health Corp.'s Form 10-K dated December 31, 2016 filed with the SEC on March 14, 2017) |

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|---|---|
| **10.36** | Sixth Amendment to Credit Agreement dated as of August 1, 2016 by and among Northstar Healthcare Acquisitions, L.L.C., the other Credit Parties named therein and Healthcare Financial Solutions, LLC (incorporated by reference on Form 10-Q dated June30, 2016 filed with SEC on August 2, 2016 |
| **10.37** | Seventh Amendment to Credit Agreement dated as of August 19, 2016 by and among Northstar Healthcare Acquisitions, L.L.C., the other Credit Parties named therein and Healthcare Financial Solutions, LLC (incorporated by reference to Exhibit 10.1 to Nobilis Health Corp.'s Current Report on Form 8-K dated August 19, 2016 filed with the SEC on August 24, 2016) |
| **10.38** | $8,000,000 Amended and Restated Revolving Note dated August 19, 2016, issued by Northstar Healthcare Acquisitions, L.L.C. in favor of Healthcare Financial Solutions, LLC (incorporated by reference to Exhibit 10.2 to Nobilis Health Corp.'s Current Report on Form 8-K dated August 19, 2016 filed with the SEC on August 24, 2016) |
| **10.39** | $18,600,000 Amended and Restated Term Note dated August 19, 2016, issued by Northstar Healthcare Acquisitions, L.L.C. in favor of Healthcare Financial Solutions, LLC (incorporated by reference to Exhibit 10.3 to Nobilis Health Corp.'s Current Report on Form 8-K dated August 19, 2016 filed with the SEC on August 24, 2016) |
| **10.40** | $3,600,000 Revolving Note dated August 19, 2016, issued by Northstar Healthcare Acquisitions, L.L.C.in favor of LegacyTexas Bank (incorporated by reference to Exhibit 10.4 to Nobilis Health Corp.'s Current Report on Form 8-K dated August 19, 2016 filed with the SEC on August 24, 2016) |
| **10.41** | $6,400,000 Term Note dated August 19, 2016, issued by Northstar Healthcare Acquisitions, L.L.C. in favor of LegacyTexas Bank (incorporated by reference to Exhibit 10.5 to Nobilis Health Corp.'s Current Report on Form 8-K dated August 19, 2016 filed with the SEC on August 24, 2016) |
| **10.42** | Eighth Amendment to Credit Agreement dated as of October 20, 2016 by and among Northstar Healthcare Acquisitions, L.L.C., the other Credit Parties named therein and Healthcare Financial Solutions, LLC (incorporated by reference to Exhibit 10.1 to Nobilis Health Corp.'s Current Report on Form 8-K dated October 20, 2016 filed with the SEC on October 25, 2016) |
| **10.43** | Amended and Restated Purchase Agreement among Northstar Healthcare Acquisitions, L.L.C., Nobilis Health Corp., Arizona Center for Minimally Invasive Surgery, LLC, Arizona Vein & Vascular Center, LLC, L. Philipp Wall, M.D., P.C., and L. Philipp Wall dated October 28, 2016 (incorporated by reference to Exhibit 10.1 to Nobilis Health Corp.'s Report on Form 8-K dated October 28, 2016 filed with the SEC on November 3, 2016) |
| **10.44** | Convertible Promissory Note in principal amount of $2,250,000 dated October 28, 2016 (incorporated by reference to Exhibit 10.2 to Nobilis Health Corp.'s Report on Form 8-K dated October 28, 2016 filed with the SEC on November 3, 2016) |
| **10.45** | Employment Agreement by and between Nobilis Health Corp., Northstar Healthcare Acquisitions, LLC and L.Philipp Wall, MD dated October 28, 2016 (incorporated by reference to Exhibit 10.3 to Nobilis Health Corp.'s Report on Form 8-K dated October 28, 2016 filed with the SEC on November 3, 2016) |
| **10.46** | Credit Agreement dated as of October 28, 2016 among Nobilis Health Corp., Northstar Healthcare Holdings, Inc., Northstar Healthcare Acquisitions, L.L.C., the Loan Parties named therein, Compass Bank, LegacyTexas Bank, the other lenders party thereto, and BBVA Compass (incorporated by reference to Exhibit 10.4 to Nobilis Health Corp.'s Report on Form 8-K dated October 28, 2016 filed with the SEC on November 3, 2016) |
| **10.47** | Pledge Agreement in favor of Compass Bank dated as of October 28, 2016 (incorporated by reference to Exhibit 10.5 to Nobilis Health Corp.'s Report on Form 8-K dated October 28, 2016 filed with the SEC on November 3, 2016) |

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|---|---|
| **10.48** | Guaranty and Security Agreement dated as of October 28, 2016 by and among Northstar Healthcare Acquisitions, L.L.C., the other parties thereto and Compass Bank (incorporated by reference to Exhibit 10.6 to Nobilis Health Corp.’s Report on Form 8-K dated October 28, 2016 filed with the SEC on November 3, 2016) |
| **10.49** | Asset Purchase Agreement by and between Northstar Healthcare Acquisitions, L.L.C., Nobilis Health Corp., Hamilton Physician Services, LLC and Carlos R. Hamilton III, M.D., P.A. dated January 6, 2017 (incorporated by reference to Exhibit 10.49 to Nobilis Health Corp.'s Form 10-K dated December 31, 2016 filed with the SEC on March 14, 2017) |
| **10.50** | Amendment No. 1 to Credit Agreement and Waiver dated as of March 3, 2017 among Northstar Healthcare Acquisitions, L.L.C., the other credit parties named therein, Compass Bank and the other financial institutions party thereto (incorporated by reference to Exhibit 10.50 to Nobilis Health Corp.'s Form 10-K dated December 31, 2016 filed with the SEC on March 14, 2017) |
| **10.51** | Amended and Restated Asset Purchase Agreement among Northstar Healthcare Acquisitions, L.L.C., Nobilis Health Corp., Hamilton Physician Services, LLC and Carlos R. Hamilton III, M.D., P.A. dated March 8, 2017 (incorporated by reference to Exhibit 10.51 to Nobilis Health Corp.'s Form 10-K dated December 31, 2016 filed with the SEC on March 14, 2017) |
| **10.52** | Physician Employment & Medical Director Agreement dated as of January 6, 2017 by and between Nobilis Health Network, Inc. and Carlos R. Hamilton, III, M.D. (incorporated by reference to Exhibit 52 to Nobilis Health Corp.'s Form 10-K dated December 31, 2016 filed with the SEC on March 14, 2017) |
| **10.53** | First Amendment and Assignment to Physician Employment & Medical Director Agreement dated as of March 8, 2017 by and between Nobilis Health Network, Inc., NH Physicians Group, PLLC and Carlos R. Hamilton, III, M.D., (incorporated by reference to Exhibit 10.53 to Nobilis Health Corp.'s Form 10-K dated December 31, 2016 filed with the SEC on March 14, 2017) |
| **10.54** | Convertible Promissory Note in principal amount of $5,000,000 dated March 8, 2017 payable by Nobilis Vascular Texas, LLC to Carlos R. Hamilton III, M.D. (incorporated by reference to Exhibit 10.54 to Nobilis Health Corp.'s Form 10-K dated December 31, 2016 filed with the SEC on March 14, 2017) |
| **10.55** | Membership Interest Purchase Agreement between Northstar Healthcare Surgery Center-Houston, LLC, Nobilis Health Corp. and the Members of Elite Center for Minimally Invasive Surgery LLC dated November 15, 2017 (incorporated by reference to Exhibit 10.1 to Nobilis Health Corp.'s Current Report on Form 8-K dated November 15, 2017 filed with the SEC on November 21, 2017) |
| **10.56** | Membership Interest Purchase Agreement between Northstar Healthcare Surgery Center-Houston, LLC, Nobilis Health Corp. and the Members of Houston Metro Ortho and Spine Surgery Center LLC dated November 15, 2017 (incorporated by reference to Exhibit 10.2 to Nobilis Health Corp.'s Current Report on Form 8-K dated November 15, 2017 filed with the SEC on November 21, 2017) |
| **10.57** | Membership Interest Purchase Agreement between Northstar Healthcare Surgery Center-Houston, LLC, Nobilis Health Corp. and the Members of Elite Hospital Management LLC dated November 15, 2017 (incorporated by reference to Exhibit 10.3 to Nobilis Health Corp.'s Current Report on Form 8-K dated November 15, 2017 filed with the SEC on November 21, 2017) |
| **10.58** | Membership Interest Purchase Agreement between Northstar Healthcare Surgery Center-Houston, LLC, Nobilis Health Corp. and the Elite Sinus Spine and Ortho LLC dated November 15, 2017 (incorporated by reference to Exhibit 10.4 to Nobilis Health Corp.'s Current Report on Form 8-K dated November 15, 2017 filed with the SEC on November 21, 2017) |
| **10.59** | Amendment No. 2 to Credit Agreement dated as of November 15, 2017 among Northstar Healthcare Acquisitions, L.L.C., the other credit parties named therein, Compass Bank and the other financial institutions party thereto (incorporated by reference to Exhibit 10.5 to Nobilis Health Corp.'s Current Report on Form 8-K dated November 15, 2017 filed with the SEC on November 21, 2017) |

| | |
|---|---|
| **10.60** | Convertible Promissory Note in principal amount of $3,500,000 dated November 15, 2017 payable by Northstar Healthcare Surgery Center - Houston, LLC to ELite Ambulatory Surgery Centers, LLC (incorporated by reference to Exhibit 10.6 to Nobilis Health Corp.'s Current Report on Form 8-K dated November 15, 2017 filed with the SEC on November 21, 2017) |
| **14.1*** | Code of Business Conduct and Ethics adopted by the Board of Directors of Nobilis Health Corp. on March 7, 2018 (filed herewith) |
| **21.1*** | List of Subsidiaries |
| **23.1*** | Consent of Crowe Horwath LLP |
| **31.1*** | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| **31.2*** | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| **32.1*** | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| **32.2*** | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| **101.INS*** | XBRL Instance Document |
| **101.SCH*** | XBRL Taxonomy Extension Schema Document |
| **101.CAL*** | XBRL Taxonomy Extension Calculation Linkbase Document |
| **101.DEF*** | XBRL Taxonomy Extension Definition Linkbase Document |
| **101.LAB*** | XBRL Taxonomy Extension Label Linkbase Document |
| **101.PRE*** | XBRL Taxonomy Extension Presentation Linkbase Document |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

| | | |
|---|---|---|
| | | **NOBILIS HEALTH CORP.** |
| | | (Registrant) |
| Dated: | March 12, 2018 | */s/ Harry Fleming* |
| | | **Harry Fleming** |
| | | Chairman of the Board and Chief Executive Officer |
| | | (Principal Executive Officer) |
| Dated: | March 12, 2018 | /s/ *David Young* |
| | | **David Young** |
| | | Chief Financial Officer |
| | | (Principal Financial Officer) |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | |
|---|---|---|
| Dated: | March 12, 2018 | */s/ Harry Fleming* |
| | | **Harry Fleming** |
| | | Chairman of the Board and Chief Executive Officer |
| Dated: | March 12, 2018 | */s/ Steven Ozonian* |
| | | **Steven Ozonian** |
| | | Director |
| Dated: | March 12, 2018 | */s/ Mike Nichols* |
| | | **Mike Nichols** |
| | | Director |
| Dated: | March 12, 2018 | */s/ Neil Badlani* |
| | | **Neil Badlani** |
| | | Director |
| Dated: | March 12, 2018 | */s/ Susan Watt* |
| | | **Susan Watt** |
| | | Director |
| Dated: | March 12, 2018 | */s/ Tom Foster* |
| | | **Tom Foster** |
| | | Director |

**Code of Conduct**

Effective: March 7, 2018

**MESSAGE FROM THE CEO**

Nobilis Health Corp. ("Nobilis" or the "Corporation") is committed to performing its business activities and operations with integrity and due regard for the public interest and the interest of its shareholders. For Nobilis to meet these standards, all personnel, directors and officers (collectively referred to as "employees" unless otherwise noted in this Code of Conduct) must make a conscientious effort to maintain a high standard of business ethics and social awareness while conducting their corporate and operating responsibilities.

The following does not attempt to address every situation and aspect of the Corporation's activities in depth. In many instances, the laws and regulations governing these matters are complex and subject to change. While management undertakes to revise this Code of Conduct to reflect changing circumstances, employees are encouraged to discuss specific issues with management to ensure the Corporation's ethical standards are not compromised.

Sincerely,

/s/Harry Fleming

Harry Fleming
CEO & Chairman of the Board

## FINANCIAL INTEGRITY AND BUSINESS CONDUCT

**Display good judgment and high ethical standards in your business dealings.**
**Perform duties in good faith and employ your best efforts.**

All of Nobilis' business affairs must be conducted with honesty, transparency, fairness and integrity. These qualities are evidenced by truthfulness and the absence of deception or fraud. Employees are expected to refrain from conduct which may violate the fraud, waste and abuse laws.

**Sell Nobilis' services and products fairly and honestly, stressing their value and merits.**

Nobilis' employees shall market and advertise Nobilis' services and products fairly, honestly and in a non-deceptive manner, stressing their value and merits. Do not use tactics that misrepresent Nobilis' products and services or that unfairly undermine the products and services of a competitor. This includes the use of disparaging comments or innuendos.

**Keep honest and accurate financial records.**

You must ensure that any financial records for which you are responsible accurately reflect transactions. The financial activities of Nobilis must be recorded in accordance with generally accepted accounting principles ("GAAP") and the financial information must be fairly stated. Nobilis' books and records must not contain any false or misleading information and must conform to GAAP.

No undisclosed or unrecorded funds or assets may be established. All items of income and expense and all assets, allowances and liabilities must be entered in Nobilis' financial records and must be accurately and adequately described.

All payments must be for the purpose stated. All reports submitted to governmental authorities must be accurately made and all transactions shall be executed in accordance with management's authorization and approval.

**Employees are encouraged to speak at work-related educational programs.**

Employees are encouraged to participate as faculty and speakers at educational functions and programs. Employees should, however, seek permission of their supervisor. Purchasing for, or on behalf of, Nobilis will be free from conflict of interest and done in accordance with all applicable Laws and regulations.

Any purchasing done for or on behalf of Nobilis must be free from conflicts of interest and done in accordance with Nobilis policy. The prohibitions discussed in the policy statements section of the Compliance Manual entitled, "Payments, Discounts, and Gifts" apply to purchasing decisions. Nobilis is determined to maintain a fair and objective procurement program that results in Nobilis acquiring quality services and goods at a fair price. If an employee has any reservations about the legality of a proposed purchase, including knowledge or suspicion of inducements offered by a vendor, they should make such concerns known to the Compliance Officer.

**Always bill correctly for services rendered.**

Nobilis bills only for services rendered, and all bills must comply with billing requirements for government-sponsored programs and other payors. Nobilis employees must exercise care in assuming the accuracy of any written or oral report made to any government agency or other payor. Nobilis will not tolerate false reports by Nobilis employees to a government agency or other payor. Deliberate inaccurate reports to government agencies or other payors may expose an employee to civil and criminal penalties, as well as termination of employment and loss of benefits. Employees should also refer to the more detailed policy statement section of the Compliance Manual entitled, “Billings and Claims”.

**Nobilis will comply with Fraud, Waste and Abuse Laws and other Laws pertaining to federal and state programs.**

There are a number of laws governing federal and state health programs. These laws prohibit the payment of remuneration in return for the referral of patients or to induce the purchase of goods or services to be paid for by federal and state health and commercial payor programs. They also prohibit making false claims for reimbursement.

No employee shall solicit or receive, or offer to pay or pay for remuneration of any type (including kickbacks, bribes, gainsharing or rebates) in return for referring or recommending the referral of an individual to another person, affiliated practice or medical facility for services or in return for the purchase of goods or services.

No employee shall offer or grant any benefit to a referring physician or other referral source on the condition that such physician or referral source refer or agree to refer any patients to an affiliated practice or medical facility owned or managed by Nobilis.

You are urged to use caution when engaging in transactions that involve referral sources. Every agreement involving compensation or cross referrals with a physician or other referral source must be reviewed by Nobilis Legal Counsel prior to its execution.

**Physician recruitment practices will comply with all applicable laws and regulations.**

Nobilis will take special care to ensure that its physician recruitment practices comply with all applicable laws, rules and regulations. Physician recruitment practices may implicate federal and/or state law, including without limitation, the Stark law and federal and state anti-kickback laws.

Any physician recruitment package should be in writing and consistent with Nobilis guidelines. Any new recruitment arrangements or income guarantees should be reviewed by the Compliance Officer and Nobilis Legal Counsel. Physicians should not be required to refer patients to Nobilis, nor should their compensation or support be related to the volume or value of referrals.

**Physician practice acquisitions will comply with all applicable laws and regulations.**

Nobilis may seek to acquire physician practices in order to improve its delivery of health care services. Nobilis will take special care to comply with all laws relating to the acquisition of these practices, including federal and state anti-kickback, the Stark law, the Texas Patient Solicitation Act and various tax laws.

## PROPRIETARY INFORMATION; CONFIDENTIALITY

**Proprietary information about Nobilis must be kept confidential.**

Proprietary or confidential information developed or acquired by Nobilis and not generally available to others is a valuable asset of Nobilis and must be kept confidential and be protected against theft, loss or improper disclosure. You shall not discuss, disclose or permit the disclosure of proprietary Nobilis information, data, systems, pricing, finances, plans, or policies to any competitor of Nobilis or to any person who might be in a position to disclose such matters to Nobilis' competitors.

You should use appropriate discretion and judgment when disclosing any such information to other Nobilis employees. Salary, benefit, and other personal information relating to employees shall be treated as confidential. Personnel files, disciplinary files, and payroll information shall be maintained in a manner designed to ensure confidentiality. This obligation to maintain the confidentiality of proprietary Nobilis information continues to apply after you leave Nobilis. Any proprietary Nobilis information to which you may have access should be used only for Nobilis purposes, and disclosed only to those authorized employees who have a need to know it. Documents or files containing proprietary Nobilis information should not be taken from Nobilis' premises, copied, or released to unauthorized figures.

**Patient Information must be kept confidential.**

Nobilis possesses privileged information about patients which patients naturally expect will be kept confidential. Nobilis is committed to honoring its patients' expectations of privacy as well as all applicable laws and regulations concerning patient privacy.

Nobilis has established a procedure to ensure the confidentiality of patient records. This policy will be applied to all patient records. Nobilis also complies with the accreditations standards concerning patient confidentiality and privacy set forth by the Joint Commission on Accreditation of Health Care Organizations. Further, Nobilis will maintain the privacy and confidentiality of patient information, including patient records, in accordance with state and federal law, specifically including, but not limited to, the Health Insurance Portability and Accountability Act of 1996, and any regulations promulgated thereunder (collectively "HIPAA"). Employees must follow these procedures and standards. Employees must also follow all Nobilis policies and procedures.

Nobilis has established procedures to ensure compliance with all relevant provisions of HIPAA on or before the effective dates for such compliance. If faced with a request for patient records or information, employees must follow established procedures for determining whether and the circumstances under which such medical information may be disclosed. Employees shall not discuss a patient's medical condition or provide information about patients to anyone other than authorized personnel who need the information. Medical records may not be released without the patient's consent or in other limited circumstances. If faced with a request for patient records or information, you must refer all such requests to the Vice President of Information Technology and the Compliance Officer. Medical records should not be removed from the premises, altered, or destroyed. Anyone with access to medical records must make every effort to preserve their confidentiality. No employee should access any record without a legitimate reason.

Any violations of patient confidentiality policies should be reported to Human Resources, Vice President of Information Technology or the Compliance Officer.

## CONFLICTS OF INTEREST

A conflict of interest occurs if your activities or personal interests (i) appear to, or might influence, the business decisions required by your responsibilities, (ii) are detrimental to the business of Nobilis, or (iii) result in an improper or illegal gain for you or a third party.

### Use Nobilis property for business only.

Do not use Nobilis property for personal reasons. Nobilis' assets, such as equipment and office supplies, must not be taken out of Nobilis facilities except for purposes of performing your job. If removed from Nobilis facilities, the property must be returned to the facility when it is no longer needed for Nobilis business purposes.

### Each employee has a duty of loyalty to Nobilis.

Nobilis employees must avoid any actions that may involve, or may appear to involve, a conflict of interest with their obligations to Nobilis.

### Personal activity

You may not realize any profit or gain as a result of your position with Nobilis apart from Nobilis' compensation/benefit programs. You must not become involved in non-Nobilis related interests to the extent that you spend a substantial portion of Nobilis' normal business hours on such other interests.

### Competitors and Suppliers

Employees shall not hold a significant financial interest in, serve as a director or officer of, receive compensation from, or provide consultation or other services to (i) suppliers of Nobilis and its affiliated practices, facilities, or (ii) competitors of Nobilis, in the health care industry without the written consent of the CEO. This does not, however, apply to personal investments in shares or other securities or corporations traded on major securities exchanges.

Nobilis employees who deal with suppliers must do so in a reputable, professional and legal manner. To avoid the appearance of impropriety, Nobilis employees should decline any gifts from suppliers, including discounts, the acceptance of which would raise suspicion of improper influences. Discounts that are available to all Nobilis employees and employees of other companies may be accepted. Refer to the policy statements section of the Compliance Manual entitled, “Payments, Discounts, and Gifts” and “Entertainment and Gifts”.

Nobilis employees must obtain approval from the CEO and the Compliance Officer before serving on the board of directors of any organization that may be in business with or in competition with

Nobilis, including any banks that may have relationships with Nobilis. Positions with nongovernmental and non-health care related organizations, such as charitable or fraternal organizations do not require prior approval. Nobilis employees must disclose all board of directors activities in the annual conflict of interest disclosure statement. Nobilis reserves the right to prohibit membership on any boards if such membership would conflict with the best interests of Nobilis. Any questions should be addressed to Human Resources or the Compliance Officer.

**Disclosure of possible conflicts of interest**

Employees must disclose possible conflicts of interest involving themselves or their immediate families to their supervisor, the Compliance Officer or Nobilis Legal Counsel, who will evaluate the situation and provide any necessary guidance to avoid any appearance of impropriety.

## HEALTH, SAFETY AND ENVIRONMENT

**Nobilis will protect the environment in its operations.**

Nobilis is committed to promoting sound environmental practices that will prevent damage to the environment, enhance human and community resources, and reduce or avoid exposure to environmental liabilities. If you detect an existing or potential condition hazardous to human health or the environment, you should report the condition immediately to Human Resources, Operations Executive or the Compliance Officer.

Prompt disclosure of such events is critical to effective remedial action and to Nobilis' efforts to ensure that such events do not recur. Employees with responsibility for the proper handling and disposal of hazardous substances and infectious waste should ensure that contractors hired to dispose of such materials do so in a proper manner.

**Nobilis will comply with waste disposal regulations.**

Nobilis is dedicated to minimizing the impact on the environment of Nobilis and infectious waste and to complying with all local, state and federal regulations regarding waste management. Compliance with these regulations requires ongoing monitoring; failure to comply could result in significant penalties. Any employees or contractors who come into contact with infectious or biological waste should be familiar with Nobilis' medical waste policy and procedures. Any deviations from Nobilis' policy regarding waste disposal should be reported to Human Resources, Operations Executive or to the Compliance Officer.

Nobilis and its contractors will comply with the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, EPA emission standards, and other local, state and federal laws and regulations governing the incineration, treatment, storage, disposal, and discharge of waste. Any spills or releases of hazardous materials should be reported immediately so that clean up can be initiated and appropriate reports can be made. Failure to prevent, report, or correct environmental problems can result in criminal and civil penalties as high as $50,000 per day per violation or imprisonment.

**Nobilis will maintain a safe and healthful work place.**

Nobilis and its employees and all third parties working or conducting business at any Nobilis facility are responsible for maintaining a safe and healthful work environment. Nobilis and its employees and all such third parties must comply with all federal, state and local health and safety laws, rules and regulations, including the rules and regulations of the Occupational Safety and Health Administration (OSHA).

**Controlled Substances should be handled appropriately.**

Controlled substances should only be handled in the proper manner by authorized individuals. If you know of any situation involving the inappropriate handling or dispensation of controlled substances, you should immediately report the situation to a Company Officer, Operations Executive or the Compliance Officer.

**FAIR COMPETITION (ANTI-TRUST)**

Under the antitrust laws of the United States, certain agreements, whether explicit or implicit, with competitors, customers or others may constitute punishable crimes and result in severe personal and institutional civil damages if they produce an unreasonable restraint of trade or a substantial lessening of competition. Examples of conduct that may be anti-competitive include exclusive buying or selling agreements and certain mergers and acquisitions. The facts of a particular course of conduct are important to an evaluation of the anti-competitive consequences of such conduct and require expert legal guidance.

Nobilis recognizes that routine communications with competitors are appropriate and reasonable in many instances, but communications with competitors about matters that could be perceived to have the effect of lessening competition should take place only after consultation with Nobilis Legal Counsel.

General business information about its competitors is important to Nobilis' efforts to maintain and improve upon its competitive position in the markets in which Nobilis operates. However, only legal and ethical means should be used to gather information about existing and potential competitors.

**You shall not**

- respond to any inquiry or survey from a competitor that requests information on prices, wages, marketing activity, acquisition or development plans, or any other competitive information;
- request from a competitor information on acquisition or development plans or prices the competitor charges or pays for any goods or services; or
- knowingly share with a competitor, directly or through a third party, information regarding pay scales, wages, salary ranges or compensation formulas.

Competitive information should be collected only from generally available industry sources and from information within the public domain; however, you may respond to appropriate requests for competitive information when the information is being gathered confidentially by a third party (e.g., Joint Commission on Accreditation of Healthcare Organizations, a government entity or a trade or professional association), and when such information will be made available to others only in summary form so no individual competitor is identifiable.

## GIFTS AND ENTERTAINMENT

**Use best judgment when giving gifts.**

You must not provide gifts, loans or other benefits to a customer (or representative) or potential customer (or representative) or to any physician (or representative) to obtain sales or beneficial arrangements from the customer or physician. A gift is appropriate only if:

- the monetary value is of limited value;
- the benefit is part of a marketing, educational or other ordinary business activity; and
- the benefit does not violate any applicable law.

Acceptable gifts could include occasional business meals or promotional items of limited value.

You may not give gifts which are in the form of cash or cash equivalents. You must consult with the Compliance Officer before providing anything of value to any physician (or representative).

Remember that we are all stewards of Nobilis' assets, and when giving gifts, you are giving away a Nobilis asset.

**Do not use Nobilis funds for improper or illegal activities.**

You may not make payments to government officials to secure sales or obtain favorable treatment. Gifts to, or entertainment in excess of limited value of, government officials or employees is prohibited. Gifts, assistance or entertainment provided for any government official or employee should not compromise or appear to compromise that person's integrity. You cannot use Nobilis assets to contribute to a political party, committee, organization or candidate. You may make personal contributions of your own choice, but such contributions are on a voluntary, personal basis and are not subject to reimbursement by Nobilis.

**Ask yourself**

- Would the gifts in total exceed limited value?
- Are the gifts intended to retain or secure business for Nobilis?
- Is the gift for business purposes?
- Is the gift or offer legal?
- Is the gift customary for the relationship?

- Would I, or Nobilis, be embarrassed if the gift was disclosed to the public via the internet or other means?

**EMPLOYMENT PRACTICE**

**Nobilis does not discriminate in its employment practices. Employees will be treated with respect and courtesy.**

No person may be discriminated against concerning recruitment, employment, promotion, termination of employment or any other term or condition of employment because of such person's race, color, religion, age, national origin, sex (including sexual orientation and gender identity), pregnancy, disability, genetic information, U.S. military service or any other bias prohibited by federal, state or local law. For further information refer to Human Resources policy entitled, "Equal Opportunity Employment"

**Nobilis prohibits harassment and workplace violence. Employees should be treated with respect and courtesy.**

No employee of Nobilis shall engage in any type of conduct whatsoever that could be construed as sexual harassment under the guidelines established by the Equal Employment Opportunity Commission and as established by Nobilis' policy prohibiting sexual harassment. Behavior construed as harassing based on personal characteristics or cultural background is also prohibited. If you experience harassment in the workplace, you should report it to a Company Officer, Human Resources confidential hotline ( 1-844-680-0877 or www.nobilishealth.ethicspoint.com ), or the Compliance Officer.

The use of violence in the workplace is unacceptable. To ensure a safe environment, workers are prohibited from possessing weapons, explosive devices, or other dangerous materials on Nobilis property. Anyone witnessing any form of harassment or violence should report the incident to a Human Resources, confidential hotline ( 1-844-680-0877 or www.nobilishealth.ethicspoint.com ) or the Compliance Officer. For further information refer to Human Resources policy entitled, "Harassment, including Sexual Harassment".

**Nobilis is committed to maintaining a drug free work environment.**

Nobilis is committed to ensuring that Nobilis is a drug-free work place. The manufacture, dispensation, possession, distribution, consumption or use of illegal drugs or alcohol on Nobilis premises or on Nobilis time is absolutely prohibited. You should not participate in any of the above practices nor should you work under the influence of drugs or alcohol while on duty. Nobilis reserves the right to permit the consumption of alcohol at designated functions.

Drugs which could impair judgment or other skills required in job performance are sometimes prescribed for employees. If you have questions about the effect of such medication on your performance, consult with Human Resources or the Compliance Officer.

**Anti-Retaliation**

Nobilis strictly prohibits any form of unlawful retaliation or intimidation against any employee who in good faith makes a compliant, raises a concern, provides information or otherwise assists in an investigation or proceeding regarding any conduct that he or she reasonably believes to be a violation of this Code of Conduct, Nobilis policies or applicable laws, rules or regulations.

## GOVERNMENT REQUESTS

**Consult the Compliance Officer about any non-routine requests from national, state and municipal government agencies.**

It is Nobilis' policy to cooperate with reasonable requests from any governmental agency concerning Nobilis' operations. The fact that a law enforcement agent requests information from Nobilis or an employee of Nobilis does not mean a crime has been committed or even that the agent has concluded a crime was committed.

If law enforcement agents seek to contact you directly, you are advised:

- that you have the right to speak or decline to speak, as all such conversations by you are entirely voluntary;
- that you have the right to speak to an attorney before deciding to be interviewed;
- that you can insist that if you agree to be interviewed, that an attorney be present. Nobilis requests that you advise Nobilis Legal Counsel before responding to any requests which are outside the ordinary scope of routine reports which are regularly made to governmental authorities.

**INSIDER TRADING**

**Nob ilis believes in, and is committed to, the right of investors to fair, orderly and efficient mark ets**

To this end, Nobilis complies, and requires compliance by its employees, with all laws and regulations affecting Nobilis securities and the markets on which said securities are traded.

As the shares of Nobilis are publicly-traded, no employee (or member of the employee's family, or any person who is associated with the employee) shall trade in the shares or other securities of Nobilis when in possession of non-public information obtained by the employee in the employee's capacity as an employee which, if generally known, might reasonably be expected to affect the value of such shares or other securities. Furthermore, no non-public information shall be used by an employee for the employee's own benefit or otherwise disclosed to others.

Additionally, as a Nobilis employee, you may have access to third party information which is material and non-public. Likewise, no employee shall trade in the securities of such third parties.

Anyone with questions about buying or selling shares of Nobilis should consult with Human Resources or Nobilis Legal Counsel.

**CONCLUSION**

Every employee, supplier, agent, director and officer shall acknowledge in writing receipt of a copy of this Code of Conduct and that such individual or entity has read and agrees to comply with its provisions as a condition of employment/agreement with Nobilis. In addition, all such entities will annually acknowledge, in writing, their compliance with this Code of Conduct.

Each manager of the Corporation shall ensure the distribution and acknowledgment of a copy of this statement to every employee in the department and establish such further procedures as deemed appropriate to monitor compliance.

Every signatory has an obligation to report violations of this Code of Conduct. Any person who has knowledge of, or suspects, a breach of this Code of Conduct, or has a specific question, idea, concern, or general comment regarding this Code of Conduct, or its interpretation, should meet and discuss with a supervisor, Human Resources, Nobilis Legal Counsel, the Compliance Officer: compliance@nobilishealth.com or otherwise disclose confidentially via the hotline at **1-844-680-0877** or ( www.nobilishealth.ethicspoint.com ).

Disciplinary action for any breaches of this Code of Conduct may include termination of employment or business relationship.

**CERTIFICATE OF COMPLIANCE WITH CODE OF CONDUCT**

I hereby certify that I have read and understand Nobilis' Code of Conduct.

I hereby certify my intention to act in complete compliance with Nobilis' Code of Conduct and related policies and when necessary, seek advice from a supervisor, Human Resources, Nobilis Legal Counsel or the Compliance Officer concerning the appropriate activities that I may need to undertake in order to comply with the Code of Conduct and related policies.

Date: ____________________________

Name: ____________________________________________________________

Signature: ________________________________________________________

Title or Capacity: __________________________________________________

**Exhibit 21.1**

**NOBILIS HEALTH CORP. SUBSIDIARIES**

As of December 31, 2017

| **Name of subsidiary** | **Jurisdiction of Formation** |
|---|---|
| Northstar Healthcare Holdings, Inc. | Delaware |
| Northstar Healthcare Acquisitions, L.L.C. | Delaware |
| Northstar Healthcare Subco, L.L.C. | Delaware |
| First Nobilis, LLC | Texas |
| Northstar Healthcare Management Company, LLC | Texas |
| Northstar Healthcare Surgery Center-Scottsdale, LLC | Arizona |
| Northstar Healthcare Dallas Management, LLC | Texas |
| NHC ASC - Dallas, LLC | Texas |
| Central Dallas Surgery Center, LLC | Texas |
| Southwest Freeway Surgery Center, LLC | Texas |
| Northstar Healthcare Surgery Center - Houston, LLC | Texas |
| First Nobilis Hospital Management, LLC | Texas |
| First Nobilis Hospital, LLC | Texas |
| First Nobilis Surgical Center, LLC | Texas |
| Nobilis Health Network, Inc. | Texas |
| Northstar Healthcare Limited Partner, L.L.C. | Delaware |
| Northstar Healthcare General Partner, L.L.C. | Delaware |
| Hermann Drive Surgical Hospital, LP | Texas |
| The Palladium for Surgery Houston, LTD. | Texas |
| Medical Ambulatory Surgical Suites, L.P. | Texas |
| The Palladium for Surgery-Dallas, LTD. | Texas |
| Microsurgery Institute LLC | Texas |
| Nobilis Health Marketing, LLC | Texas |
| Athas Health, LLC | Texas |
| Athas Administrative, LLC | Texas |
| Athas Holdings, LLC | Texas |
| Peak Surgeon Innovations, LLC | Texas |
| Peak Neuromonitoring Associates-Texas II, LLC | Texas |
| Nobilis Surgical Assist, LLC | Texas |
| Southwest Houston Surgical Assist, LLC | Texas |
| Marsh Lane Surgical Hospital, LLC | Texas |
| Central Medical Solutions, LLC | Texas |
| Perimeter Road Surgical Hospital, LLC | Arizona |
| Concertis, LLC | Texas |
| Premier Health Specialists, LLC | Arizona |
| MPDSC, LLC | Texas |
| Southwest Freeway Surgery Center Management, LLC | Texas |
| Central Dallas Management, LLC | Texas |
| Nobilis Vascular Holding Company, LLC | Arizona |
| Chandler Surgery Center, LLC | Arizona |
| Oracle Surgery Center, LLC | Arizona |
| Phoenix Surgery Center, LLC | Arizona |
| Bellaire Surgical Hospital Holdings, LLC | Texas |
| Nobilis Health Network Specialist Group, PLLC | Texas |

| | |
|---|---|
| ZD Anesthesia, PLLC | Texas |
| NH Anesthesia Health Network, PLLC | Texas |
| Aerial Anesthesia, PLLC | Texas |
| NH Clinical Services, PLLC | Texas |
| Dallas Metro Surgery Center, LLC | Texas |
| Nobilis Vascular Texas, LLC | Texas |
| Elite Sinus Spine Ortho, LLC | Texas |
| Houston Metro Ortho and Spine Surgery Center, LLC | Texas |
| Elite Center for Minimally Invasive Surgery, LLC | Texas |
| Elite Hospital Management, LLC | Texas |
| NH Provider Network, PLLC | Texas |
| Nobilis Texas Physicians Associates, PLLC | Texas |
| NH Physicians Group, PLLC | Texas |
| American Physicians Group, PLLC | Texas |
| PEAK Neuromonitoring Physicians I, PLLC | Texas |
| PEAK Neuromonitoring Physicians II, PLLC | Texas |
| PEAK Neuromonitoring Associates Texas, LLC | Texas |
| PSH Management, LLC | Texas |
| Mountain West Surgery Center, LLC | Texas |
| Nobilis Arizona Holding Company, LLC | Arizona |
| Nobilis Uptown Holding, LLC | Texas |
| North Phoenix ASC Management, LLC | Arizona |
| NHC Arizona Professional Associates, LLC | Arizona |
| Houston Microsurgery Institute, LLC | Texas |

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-204712 on Form S-8 of Nobilis Health Corp. of our report dated March 12, 2018 , relating to the consolidated financial statements appearing in this Annual Report on Form 10-K.

/s/ Crowe Horwath LLP

Dallas, Texas
March 12, 2018

**Exhibit 31.1**

## CERTIFICATION PURSUANT TO

## 18 U.S.C. ss 1350, AS ADOPTED PURSUANT TO

## SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Harry Fleming, certify that:

1. I have reviewed the Annual Report on Form 10-K for the period ended December 31, 2017 of Nobilis Health Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2018

/s/ Harry Fleming

Harry Fleming

Chief Executive Officer

**Exhibit 31.2**

## CERTIFICATION PURSUANT TO

## 18 U.S.C. ss 1350, AS ADOPTED PURSUANT TO

## SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David Young, certify that:

1. I have reviewed the Annual Report on Form 10-K for the period ended December 31, 2017 of Nobilis Health Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2018

/s/ David Young

David Young

Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Nobilis Health Corp. (the “Company”) on Form 10-K for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Harry Fleming, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Harry Fleming
Harry Fleming
Chief Executive Officer
March 12, 2018

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Nobilis Health Corp. (the “Company”) on Form 10-K for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David Young, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Young
David Young
Chief Financial Officer
March 12, 2018