

A copy of this amended and restated preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This amended and restated preliminary prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws and may not be offered or sold in the United States or to U.S. persons except in compliance with the registration requirements of the U.S. Securities Act and applicable state securities laws or an exemption therefrom. See "Plan of Distribution".

AMENDED AND RESTATED PRELIMINARY PROSPECTUS

Initial Public Offering

May 10, 2005



Novadaq Technologies Inc.

\$ •

• Common Shares

This prospectus qualifies the distribution (the "Offering") of • common shares ("Common Shares") of Novadaq Technologies Inc. (the "Company" or "Novadaq"). Novadaq develops and commercializes medical devices based on its proprietary imaging platform for the diagnosis and treatment of human vascular and ophthalmic diseases and conditions. See "The Business of the Company".

There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell Common Shares purchased under this prospectus. In connection with this Offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the price of the Common Shares at levels other than those which otherwise might prevail on the open market. See "Plan of Distribution".

An investment in the Common Shares is subject to a number of risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: \$ • Per Common Share

	Price to the Public ⁽¹⁾	Underwriters' Fee ⁽²⁾	Net Proceeds to the Company ⁽²⁾⁽³⁾
Per Common Share	\$ •	\$ •	\$ •
Total Offering ⁽⁴⁾	\$ •	\$ •	\$ •

Notes:

- (1) The price of the Common Shares offered hereby was established by negotiation between the Company and the Underwriters.
- (2) Certain current shareholders of the Company, who collectively own approximately • % of the outstanding Common Shares (• % on a fully diluted basis) without giving effect to the Common Shares issuable pursuant to this Offering, have indicated their intention to purchase approximately • of the Common Shares offered pursuant to this Offering at the offering price. No commission will be paid by the Company to the Underwriters for the Common Shares purchased by these shareholders. See "Plan of Distribution".
- (3) After deducting the Underwriters' Fee but before deducting expenses of the Offering, estimated at \$ • , which expenses will be paid by the Company from the proceeds of the Offering.
- (4) The Company has granted to the Underwriters an option, exercisable for a period of 30 days from the closing of the Offering, to purchase up to a total of • additional Common Shares on the same terms as set out above solely to cover over allotments, if any, and for market stabilization purposes (the "Over-Allotment Option"). If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Company" will be \$ • , \$ • and \$ • , respectively. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Common Shares issuable on the exercise of the Over-Allotment Option. See "Plan of Distribution".

RBC Dominion Securities Inc., TD Securities Inc., GMP Securities Ltd., Orion Securities Inc. and Scotia Capital Inc. (the "Underwriters"), as principals, conditionally offer the Common Shares, subject to prior sale, if, as and when issued, sold and delivered by the Company and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters on behalf of the Company by their counsel, Stikeman Elliott LLP, and on behalf of the Underwriters by their counsel, Osler, Hoskin & Harcourt LLP. As a result of its role in a previous financing, TD Securities Inc. is a holder of warrants to acquire Common Shares of the Company. **Accordingly, in connection with this Offering, the Company may be considered to be a connected issuer of TD Securities Inc. under applicable securities laws.** See "Plan of Distribution".

Subscriptions for Common Shares will be received subject to rejection or allotment in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that the certificates representing the Common Shares will be available for delivery on the date of closing of the Offering, which is expected to occur on or about • , 2005, or such later date as the Company and the Underwriters may agree, but in any event not later than • , 2005.

vascular imaging
for diagnosis and treatment

proven platform

Coronary Artery Bypass Graft Surgery

need expressed

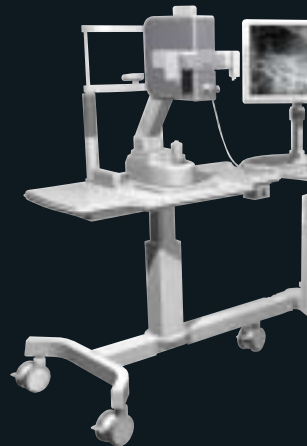
Currently, there is no procedure that is routinely used to visually assess coronary artery bypass graft quality and functionality during surgery.



Wet Age-related Macular Degeneration (AMD)

need expressed

Currently, there is no available system that practically allows for the broad application of Feeder Vessel Therapy as a first line treatment for wet AMD.



recurring revenue model

targeting two initial markets

SPY **Real time visual assessment of revascularization**



1



2



3



4



5

technology

SPY enables surgeons to visually assess coronary vasculature and bypass graft functionality during the course of CABG surgery by allowing them to view high quality real time infrared fluorescent image sequences of the coronary arteries and bypass grafts. This visual validation improves the overall efficacy of CABG surgery, as it allows surgeons to perform revisions, if necessary, as part of the same surgical procedure.

OPTTX **A single device for Feeder Vessel Therapy**



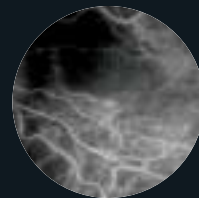
1



2



3



4



5

technology

OPTTX is designed to allow retinal specialists to quickly and accurately diagnose, target and cauterize abnormal feeder vessels in real time within a single visit.



expanding into new markets

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GENERAL MATTERS

NOVADAQ™ and SPY™ are trademarks of the Company. This prospectus contains company names, product names, trade names, trademarks and service marks of other organizations, all of which are the property of their respective owners.

Information contained on the Company's website is not part of this prospectus and is not incorporated herein by reference and may not be relied upon by prospective purchasers for the purposes of determining whether to invest in the Common Shares offered under this prospectus.

CURRENCY AND EXCHANGE RATES

In this prospectus, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars. References to "\$" and "Cdn\$" are to Canadian dollars and references to "US\$" and "US dollars" are to United States dollars.

The following table reflects the high and low rates of exchange for one U.S. dollar, expressed in Canadian dollars, during the periods noted, the rates of exchange at the end of such periods and the average rates of exchange during such periods, based on the Bank of Canada noon spot rate of exchange:

	January 1, 2005 to March 31, 2005	Years Ended December 31,		
		2004	2003	2002
	Cdn\$	Cdn\$	Cdn\$	Cdn\$
High for the period	1.2566	1.3968	1.5747	1.6132
Low for the period	1.1987	1.1774	1.2924	1.5110
Rate at the end of the period	1.2096	1.2036	1.2924	1.5796
Average rate for the period	1.2267	1.3015	1.4015	1.5704

During the period from April 1, 2005 to May 6, 2005, the average, high and low rates of exchange for one US dollar, expressed in Canadian dollars, were Cdn\$1.2387, Cdn\$1.2569 and Cdn\$1.2147, respectively. On May 6, 2005, the noon rate of exchange as reported by the Bank of Canada for conversion of US dollars into Canadian dollars was US\$1.00 = Cdn\$1.2432 (US\$0.8044 = Cdn\$1.00).

ELIGIBILITY FOR INVESTMENT

In the opinion of Stikeman Elliott LLP, counsel to the Company, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, the Common Shares, if and when listed on a prescribed stock exchange (which includes the Toronto Stock Exchange), will be qualified investments under the *Income Tax Act* (Canada) for a trust governed by a registered retirement savings plan ("RRSP"), a registered retirement income fund ("RRIF"), a deferred profit sharing plan ("DPSP") or a registered education savings plan. Based in part on a certificate of an officer of the Company as to certain factual matters, the Common Shares, if acquired on the date hereof, would not constitute foreign property under the *Income Tax Act* (Canada) for trusts governed by RRSPs, RRIFs and DPSPs or for certain other persons to whom Part XI of the *Income Tax Act* (Canada) is applicable. In any event, on February 23, 2005, the Minister of Finance (Canada) proposed in the federal budget tabled in the House of Commons that the limit in respect of foreign property that may be held by RRSPs, RRIFs, DPSPs and other persons subject to tax under Part XI of the *Income Tax Act* (Canada) be eliminated for 2005 and subsequent years. On March 24, 2005, a bill was introduced in the House of Commons to implement this proposed elimination of the foreign property limit. There can be no assurance that such amendments will become law as proposed.

FORWARD LOOKING STATEMENTS

This prospectus contains certain forward-looking statements. These statements relate to future events or future performance and reflect management's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Company. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management of the Company. In some cases, forward-looking statements can be identified by terminology such as "may", "would", "could", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. In particular, statements regarding the Company's future operating results, economic performance and product development efforts are or involve forward-looking statements. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. In evaluating these statements, prospective purchasers should specifically consider various factors, including the risks outlined under "Risk Factors", which may cause actual events, performance or results to differ materially from any forward-looking statement. Although the forward-looking statements contained in this prospectus are based on what management of the Company considers to be reasonable assumptions based on information currently available to it, there can be no assurance that actual events, performance or results will be consistent with these forward-looking statements, and management's assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this prospectus and the Company does not intend, and does not assume any obligation, to update or revise them to reflect new events or circumstances.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the offering under this prospectus (the “Offering”) of common shares (“Common Shares”) of Novadaq Technologies Inc. (“Novadaq” or the “Company”) and should be read together with the more detailed information and financial data and financial statements contained elsewhere in this prospectus. Unless otherwise indicated, the disclosure contained in this prospectus assumes that the steps outlined under the heading “Reorganization” have been completed and that the Over-Allotment Option has not been exercised. Certain terms used in this prospectus are defined in the Glossary.

The Company

Overview

Introduction and History

Novadaq develops and commercializes medical devices based on its proprietary imaging platform for the diagnosis and treatment of human vascular and ophthalmic diseases and conditions. The Company’s SPY System, which consists of an intra-operative imaging device and a consumable kit that is used in each imaging procedure, has received all necessary regulatory approvals and clearances for use in coronary artery bypass graft (“CABG”) surgery in the United States, Canada, the European Union and Japan. Novadaq has commenced commercial sales of the SPY System in Japan and is in the first stage of a strategic commercial launch of the SPY System in the United States. To date, management believes that the SPY System has been used in over 2,000 CABG procedures worldwide. In the United States, the Company is implementing a procedural-based fee model and currently expects an end-user fee of approximately US\$475 to US\$750 per procedure performed using the SPY System.

The Company has also developed a device for the diagnosis and treatment of the wet form of age-related macular degeneration (“Wet AMD”). This device, which together with the consumable kit used in the procedure is known as the OPTTX System, is currently in a clinical trial in Europe as part of the preparation for the necessary regulatory submissions for clearance and/or approvals to market the OPTTX System in the United States, Canada, Europe and Japan.

The Company was founded in 2000 and obtained an exclusive worldwide license from the National Research Council of Canada for the principal intellectual property rights underlying the SPY System. The Company subsequently acquired an exclusive worldwide license from The Johns Hopkins University for the principal intellectual property rights underlying the OPTTX System in 2001 and 2002.

Novadaq’s Technology Platform

The Company’s technology platform leverages the integration of three technologies: laser technology, sophisticated imaging technology and Indocyanine Green (“ICG”) as a fluorescing agent. The integration of these technologies provides Novadaq with the capability to visualize real-time natural blood flow in vessels as small as five microns in diameter at a speed of 30 frames per second. Novadaq expects that this imaging platform can potentially be used in a number of devices for therapeutic and diagnostic applications targeting human vascular and ophthalmic diseases and conditions. Management believes that the market potential for such devices is significant as a result of a number of the benefits of the Company’s technology platform, including its ability to produce superior digital images, the procedural standardization that it affords and a track record of safety.

The SPY System

The SPY System enables cardiac surgeons to visually assess coronary vasculature and bypass graft functionality during the course of CABG surgery by allowing them to view, record, replay, print and archive high quality real time infrared fluorescent image sequences of the coronary arteries and bypass grafts. This visual validation improves the overall efficacy of CABG surgery as a treatment of coronary artery disease, as it allows surgeons to perform revisions, if necessary, as part of the same surgical procedure. Coronary artery disease is the most common type of heart disease, affecting approximately 13 million Americans. Coronary artery disease may, in some cases, be treated with medications or procedures such as balloon angioplasty or stenting. In more severe cases, surgery is performed which consists of creating a new path for blood to flow around the blockage. This procedure is CABG surgery. Management believes that approximately 400,000 CABG procedures will be performed in the United States in 2005 and that approximately 720,000 CABG procedures will be performed worldwide.

There is currently no procedure that is routinely used to assess coronary artery bypass graft quality and functionality during the course of CABG surgery. Multiple clinical studies of patient populations of 100 or greater have reported early graft occlusion rates that range between 5% and 13%. In the United States, and in most other countries, non-functional grafts are usually only discovered if the patient's post operative recovery is sub-optimal, in which case a post-operative x-ray angiogram may be administered. If the post-operative angiogram shows that a graft is not functional, or has not been successful in restoring blood flow to the targeted area of the heart, additional surgery or an interventional procedure may be required. Post-operative complications from the non-functional grafts and the additional surgery required to correct non-functional grafts increase the risk of patient mortality and morbidity. In addition, repeat procedures to correct non-functional grafts within the same hospitalization period may be costly for the hospital, given that insurance providers in the United States typically only reimburse the hospital a fixed amount for a particular episode of care. Management believes that these factors, as well as the increasing oversight pertaining to mandatory medical error reporting and malpractice suits in the United States, create a significant market opportunity for a device such as the SPY System, which, as reported in several studies, allows cardiac surgeons to reliably and conveniently detect bypass graft anomalies while the patient is still in the operating room, thereby reducing the potential for costly post-operative complications or repeat surgeries.

The currently available technologies for assessing coronary artery bypass graft functionality, such as x-ray angiography and flow measurement technology, are either not practical for intra-operative use or have other limitations.

For example, x-ray angiography, although an effective means of assessing coronary vasculature and bypass graft functionality, is not generally practical for intra-operative use because:

- it requires specially equipped operating rooms that largely do not exist today;
- it requires the patient and the operating room staff to wear bulky, heavy ionizing radiation protective gear;
- it is difficult to properly position the x-ray equipment used in the procedure without disrupting the sterile operating field;
- it requires the catheterization of the coronary vessels of the CABG patient; and
- it is a time-consuming procedure, adding up to an hour to anesthesia, heart-lung bypass and operative procedural times, which poses increased risk to CABG patients.

Similarly, flow measurement technology:

- does not provide visual images and can only measure blood flow at the point that the probe contacts the vessel;
- relies on the correct interpretation of flow patterns, reducing the reproducibility and reliability of the measurement; and
- cannot confirm the effectiveness of the bypass graft in revascularizing the heart.

In contrast, the SPY System:

- is a practical and cost-effective means for cardiac surgeons to visually validate coronary artery bypass graft quality and function during the course of CABG surgery, requiring only two to three minutes of additional operative time per bypass graft;
- can be utilized to visually assess bypass graft functionality while the patient is still in the operating room, thereby reducing the potential for post-operative complications and costly repeat surgeries or other interventional procedures;
- is non-intrusive in the operating room, and can be easily positioned as required during the course of CABG surgery; and
- is a highly reproducible procedure which has been demonstrated to be safe, reliable, non-invasive and easy to use.

The following are some of the peer-reviewed conclusions reached on the use of the SPY System to date:

- In March 2005, in an abstract presented during the 2005 American College of Cardiology Scientific Sessions, it was concluded that based on a study of 120 CABG patients at Sunnybrook and Women's College Health Sciences Centre in Toronto, Ontario, receiving a total of 336 bypass grafts, the SPY System detected grafts that required revision in 8% of patients. In this same abstract, the investigators concluded that given the

anatomic complexity of current CABG patients, ICG angiography using the SPY System can “reliably ensure intra-operative technical perfection.”

- It was reported in the *Journal of Thoracic and Cardiovascular Surgery* 2004 that in a study of 200 CABG patients receiving 533 grafts, the SPY System detected the need for graft revision in 4% of patients.
- It was reported in *Interactive Cardio-Vascular and Thoracic Surgery* 2004 that in a study of 72 CABG patients receiving 290 grafts, the use of the SPY System for intra-operative graft validation during off-pump CABG “may become the gold standard for surgical management in the near future.”

The Company is in the first stage of conducting a strategic commercial launch of the SPY System in the United States and is continuing its commercialization activities in Japan. The Company is initially focusing commercialization efforts in the United States on placing the SPY System in five leading medical centers, and to date has already placed or made arrangements to place the SPY System with Stanford University Medical Center in Palo Alto, California, Medical City Hospital in Dallas, Texas, the Cleveland Clinic in Cleveland, Ohio, Lennox Hill Hospital in New York, New York, and the Methodist Hospital DeBakey Heart Center in Houston, Texas. The Company has received purchase orders from each of these sites, and is beginning to receive revenue from procedures performed at installed sites. Management believes that positive endorsement from surgeons in these sites, some of which have historically played a role in the adoption and standardization of other new cardiac surgery advances, would accelerate the routine use of the SPY System in CABG surgery, and therefore potentially encourage the wider scale adoption of the SPY System. Management also expects that these initial placement experiences will provide the Company with valuable information on the most effective and efficient sales channel for the SPY System, both in the broader United States and worldwide cardiac surgery markets. The Company currently expects that as it formulates its broader United States commercialization strategy it will partner with an established device distributor.

OPTTX System

The OPTTX System is a device designed for the diagnosis and treatment of Wet AMD. AMD is a degenerative condition of the macula, which results in the loss of central vision. The macula is the central part of the retina and is located at the back of the eye. The most common symptoms include central distortion, loss of contrast sensitivity and loss of colour vision, none of which can be corrected by traditional aids such as glasses or contact lenses. There are two types of AMD: a dry form and a wet form. Wet AMD affects approximately 1.8 million Americans and is the leading cause of blindness among people over the age of 50 in the industrialized world. The National Eye Institute at the United States National Institutes of Health reports that in addition to those already affected by the disease, there are another 7.3 million Americans who are at substantial risk of developing Wet AMD. There are approximately 500,000 new Wet AMD patients identified annually worldwide, with approximately 250,000 of those diagnosed in the United States. Management expects the incidence of Wet AMD to increase significantly as the United States population ages and as overall life expectancy increases.

Patients with Wet AMD experience abnormal blood vessel growth in the back of their eyes. These abnormal vessels grow out of the choroidal vasculature of the eye, and this growth is known as choroidal neovascularization (“CNV”). The vessels of the CNV are thin and porous and therefore blood and fluid leak into the space below the retina. This causes the retina to be lifted upward, which disturbs the focus of the eye. As the condition evolves, the blood and fluid leakage causes damage to the retinal cell layer, which results in loss of central vision. The CNV is supplied by at least one or as many as four arteries originating deep in the choroidal layer at the base of the arterial infrastructure of the eye. These supply arteries are known as feeder vessels. These feeder vessels are the sole supply of blood and nutrients for the CNV.

Since the cause of AMD is not known, Wet AMD treatments typically focus on treating the symptoms in an attempt to reduce abnormal blood vessel growth and leakage, thereby minimizing the vision loss resulting from the CNV vessels. There are currently very few approved therapies available. The OPTTX System is a single device that enables retinal specialists to perform a type of laser treatment for Wet AMD known as feeder vessel therapy. Feeder vessel therapy involves identifying the abnormal feeder vessels that are associated with the CNV and then photocoagulating, or cauterizing, those abnormal vessels by the application of precisely targeted laser energy.

Retinal specialists have practiced laser photocoagulation for the treatment of Wet AMD, the precursor of feeder vessel therapy, since the 1970’s. Feeder vessel therapy is currently performed using two separate devices: an imaging device to locate the abnormal feeder vessels and a treatment device, such as a slit lamp laser, to photocoagulate or cauterize the feeder vessels. The conventional treatment device is not capable of imaging the abnormal feeder vessels,

which are located behind the retina. As a result, feeder vessel therapy, as currently practiced, first involves the use of an imaging procedure to generate a “hand tracing” or photograph of the eye that identifies the vascular landscape, including the abnormal feeder vessels and the target treatment area. The treatment is then administered by a separate laser device using a technique called “painting”, which involves firing a cauterizing laser in small bursts in and around the area where, based on this prior map, the retinal specialist believes the feeder vessel to be located. The need to use two devices makes feeder vessel therapy a time-consuming and technically difficult procedure, and management believes that as a result of these limitations only a small number of retinal specialists currently perform feeder vessel therapy. Despite these limitations, however, feeder vessel therapy, as it is currently practiced, is a safe and relatively effective treatment for most Wet AMD conditions.

The OPTTX System is a single device that is intended to allow retinal specialists to quickly and accurately diagnose, target and cauterize abnormal feeder vessels in real time within a single patient visit, and to immediately confirm the treatment. Management believes that the OPTTX System therefore potentially offers retinal specialists and Wet AMD patients the following clinical and procedural advantages:

- The OPTTX System allows abnormal feeder vessels to be identified by the use of very high-speed ICG angiography and also aligned for treatment with the treatment laser, all in real time. This real-time identification eliminates the inaccuracy of aim that is inherent in feeder vessel therapy as it is currently practiced, which uses separate diagnostic and treatment devices.
- The ICG used in the OPTTX treatment procedure preferentially absorbs the energy of the treatment laser, which is then released as heat and cauterizes the abnormal feeder vessel from the inside out. As a result, the laser energy is more accurately targeted and less energy is needed to close the feeder vessel, resulting in less damage to the surrounding retinal tissue.
- The OPTTX System allows for the immediate verification of feeder vessel closure in the same patient visit.
- The OPTTX System reduces procedure times and increases potential patient throughput by retinal specialists by enabling diagnosis, treatment and immediate verification of treatment with a single device.

Management expects that these advantages of the OPTTX System will in turn make feeder vessel therapy a more attractive treatment option for both retinal specialists and most Wet AMD patients, either on its own or in combination with other accepted treatments for Wet AMD.

The Company has undertaken clinical trials aimed at demonstrating the safety and effectiveness of feeder vessel therapy performed using the OPTTX System. The Company is currently conducting an additional clinical trial in Europe, and is planning a clinical trial in Canada, with the OPTTX System in preparation for the necessary regulatory submissions. Management expects that the Company will apply to the applicable regulatory authorities in Europe and Canada for the necessary clearances or approvals in the second half of this year. The Company expects that the time frame for receiving regulatory decisions from these regulatory authorities will be approximately three to six months after application is made. In the United States, management plans to seek additional guidance from the FDA in the second half of this year to determine the appropriate regulatory pathway for securing marketing authorization. The regulatory pathway will affect when the Company will be able to file the application for marketing authorization, which could vary from the second half of this year to three years from now. Depending upon the applicable clearance/approval pathway, the Company anticipates that it would receive a decision from the FDA between approximately six months and one year after application is made. If the Company receives the necessary marketing authorization, then the Company’s marketing strategy will be to establish the OPTTX System as the first line of both diagnosing and treating all sub-types and lesion types of Wet AMD, whether alone or in combination with other Wet AMD treatments.

Strengths

The Company intends to become a market leader in the development and commercialization of medical devices for the diagnosis and treatment of human vascular and ophthalmic diseases and conditions. The Company intends to achieve this goal by leveraging its strengths, which include:

- **Leverageable Proprietary Technology Platform.** The Company’s successful integration of ICG (as a fluorescing agent), laser technology and sophisticated imaging technology into a single technology platform provides Novadaq with the capability to visualize real-time natural blood flow in vessels as small as five microns in diameter at a speed of 30 frames per second. Novadaq expects that it may be able to use this imaging platform to develop and commercialize devices, in addition to those used in the SPY System and the

OPTTX System, that can potentially be used in numerous different therapeutic and diagnostic applications targeting human vascular and ophthalmic diseases and conditions.

- ***Proven Ability to Successfully Commercialize a Medical Device.*** The Company has demonstrated an ability to develop and achieve regulatory approval or clearance on its first product, the SPY System, for use in CABG surgery in the United States, Canada, the European Union and Japan. The Company has progressed this product to commercialization in the United States and Japan. To date, management believes that the SPY System has been used in over 2,000 CABG procedures worldwide.
- ***SPY System Aimed at a Significant Unmet Medical Need.*** Novadaq's SPY System enables cardiac surgeons to visually assess coronary artery bypass graft quality and function during CABG surgery. The ability to quickly, easily and reliably image blood flow in the heart during CABG surgery potentially positions the SPY System to be the standard of care for imaging during CABG surgery.
- ***Substantial Market Opportunity in the Diagnosis and Treatment of Wet AMD.*** The Company has used its technology platform to develop the OPTTX System for the diagnosis and treatment of Wet AMD, a condition that affects vision in approximately 1.8 million Americans. Management believes that feeder vessel therapy performed using the OPTTX System has the potential to be a viable first-line treatment for all sub-types and lesion types of Wet AMD. Management expects that the OPTTX System, if approved for use in the United States and elsewhere, could become an attractive treatment option for both retinal specialists and most Wet AMD patients, either as a stand alone procedure or in combination with other accepted treatments for Wet AMD.
- ***Compelling Economic Model.*** The Company is implementing a procedure-based pricing model for the SPY System in the United States. This model will not require hospitals to make any capital outlay in order to adopt the SPY System for use in CABG surgeries and is expected to provide the Company with a stable and ongoing revenue stream from procedures. The Company intends to place the SPY intra-operative imaging device in hospitals and currently expects an end-user fee, ranging from approximately US\$475 to US\$750, for each procedure performed using the SPY System. In respect of physician and hospital reimbursement, procedures conducted in the United States using the SPY System are being billed under existing global CABG reimbursement codes, and professional fees are being billed under existing angiography and angiography interpretation reimbursement codes. The Company also intends to implement a procedure-based pricing model for the OPTTX System in the United States, if it is cleared or approved by the FDA.
- ***Focus on Medical Devices Reduces Time to Markets.*** Novadaq uses its proprietary imaging platform to develop medical devices for specific diagnostic and therapeutic procedures. It generally takes less time and is less costly to obtain approvals or clearances for a new medical device than for a new drug. New medical devices often receive clearance in the United States on the basis of substantial equivalence to an existing medical device or, alternatively, through a two to three year "pre-market approval" procedure designed to establish safety and effectiveness. In contrast, new drug approval applications often require larger and costlier non-clinical and clinical development programs that can take 10 years or more to complete.

Strategy

The Company's strategies for becoming a market leading provider of medical devices for the diagnosis and treatment of human vascular and ophthalmic diseases and conditions include the following:

- ***Successfully Implement the Commercial Launch of the SPY System.*** Novadaq is currently undertaking a strategic commercial launch of the SPY System in the United States, initially focusing on the placement of the SPY System in five select revenue generating medical centers in the United States. Management believes that a positive endorsement from surgeons in these initial opinion-leading sites would accelerate the routine use of the SPY System in CABG surgery, and therefore potentially encourage the wider scale adoption of the SPY System. The Company currently expects that as it formulates its broader United States commercialization strategy it will partner with an established device distributor.
- ***Obtain Regulatory Approvals for the OPTTX System.*** The Company intends to continue clinical trials for the OPTTX System to gather data required to support its regulatory submissions for the OPTTX System in the United States, the European Union, Canada and Japan, as well as the ultimate commercialization of the OPTTX System, if and when the necessary regulatory approvals are obtained. The Company also intends to

market the OPTTX System in the United States using the same type of procedural-based fee model as it is implementing for the SPY System by marketing the OPTTX imaging device and the consumable kit as a single system. Reimbursement codes for ophthalmic ICG angiography and photocoagulation already exist in the United States.

- ***Develop New Applications for Existing Devices.*** The Company intends to continue to examine the potential of using its existing SPY imaging device in other diagnostic and therapeutic applications. For example, the Company is currently collaborating with the University of Rochester in Rochester, New York to develop clinical support for the use of the SPY System in prostate surgery. Other targeted diagnostic and therapeutic procedures include but are not limited to, organ transplant, peripheral and neurovascular surgery, and ear, nose and throat surgery. The Company also plans to continue to examine the potential of using the OPTTX System as a diagnosis and treatment system for other vascular diseases affecting the back of the eye such as diabetic retinopathy and retinal angiomatous proliferation.
- ***Leverage Existing Core Technology to Develop New Devices.*** The Company intends to develop next generation devices using its current core technology platform in order to establish a presence in new diagnostic and therapeutic applications, as well as to expand its potential market share within its currently targeted markets. For example, the Company intends to develop an endoscopic intra-operative imaging system for use in a broad array of current endoscopic procedures, and that if successfully implemented as contemplated, may also potentially enable or promote the adoption of new surgical techniques and technologies such as robotic procedures, thoroscopic CABG, minimally invasive CABG and other minimally invasive cardiovascular, peripheral vascular and neurovascular applications whose use to date has been limited by an inability to visualize the area of interest. The Company also intends to modify the OPTTX System to operate with variable/multiple wavelengths, which may enable the diagnosis of other back of the eye conditions such as dry AMD.
- ***Expand Intellectual Property Portfolio.*** As part of the ongoing commercial development of its imaging platform, the Company intends to continue to strengthen its current patent portfolio and to seek additional patent protection, as well as develop its intellectual property for new applications of its imaging platform that may be exploited directly by the Company or licensed to third parties.

Summary Financial Information

The following table sets forth a summary of certain selected financial information of the Company for the dates and periods indicated. The selected financial information of the Company as at December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 has been derived from the Company's audited financial statements appearing elsewhere in this prospectus. The selected financial information as at March 31, 2005 and for the three months ended March 31, 2005 and 2004 has been derived from the Company's unaudited financial statements appearing elsewhere in this prospectus. The selected balance sheet data as at December 31, 2002 has been derived from the Company's balance sheet as at December 31, 2002 which is not included in this prospectus. The summary financial information should be read in conjunction with the financial statements of the Company and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	Three Months Ended March 31,		Years Ended December 31		
	2005	2004	2004	2003	2002
	(in US dollars)		(in US dollars)		
Statement of Loss Data					
Revenue	155,418	23,947	1,147,274	332,626	407,079
Cost of sales	36,300	17,152	318,543	254,474	186,668
Gross profit	119,118	6,795	828,731	78,152	220,411
Operating expenses					
Sales and marketing	101,732	47,223	247,892	208,162	417,007
Research and development	718,650	355,799	1,277,386	1,473,733	1,549,343
General and administration	433,571	388,030	1,728,321	1,156,428	358,377
Depreciation	8,266	16,914	60,941	106,678	189,163
Amortization	105,283	100,017	408,844	418,868	2,205,670
Write-down of property, plant and equipment	—	—	—	—	168,681
Write-down of acquired technology	—	—	—	—	4,040,000
Loss (gain) on foreign exchange	7,475	(3,657)	(65,307)	(55,436)	9,923
Loss before the following	(1,255,859)	(897,531)	(2,829,346)	(3,230,281)	(8,717,753)
Interest income	34,321	—	56,481	28,351	45,482
Net loss for the period	(1,221,538)	(897,531)	(2,772,865)	(3,201,930)	(8,672,271)
Basic and fully diluted loss per share	(0.08)	(0.05)	(0.16)	(0.18)	(0.52)
Pro forma basic and diluted loss per share ⁽¹⁾ . . .	(●)	(●)	●	●	●

	March 31, 2005		December 31,		
	Actual	As adjusted ⁽²⁾	2004	2003	2002
	(in US dollars)		(in US dollars)		
Balance Sheet Data					
Cash and cash equivalents	615,382	●	434,380	147,790	81,867
Short-term investments	9,025,685	●	8,963,894	1,738,657	4,769,411
Working capital	8,993,046	●	10,143,596	2,108,698	4,322,462
Total assets	13,290,948	●	14,056,749	6,292,047	9,669,767
Total liabilities	870,312	870,312	575,184	624,590	1,119,780
Shareholders' equity	12,420,636	●	13,481,565	5,667,457	8,549,987

Notes:

(1) Pro forma figures retroactively give effect to the Reorganization. See "Reorganization".

(2) Assumes completion of the Offering and the Reorganization.

The Offering

Offering:	• Common Shares.
Price:	\$ • per Common Share.
Amount:	\$ • (\$ • , if the Over-Allotment Option is exercised in full).
Over-Allotment Option:	The Company has granted the Underwriters an Over-Allotment Option exercisable for a period of 30 days from the closing of the Offering to purchase up to an additional • Common Shares (representing • % of the Common Shares offered hereby) at the offering price to cover over-allotments, if any, and for market stabilization purposes. See “Plan of Distribution”.
Shares Outstanding:	As at • , 2005, assuming completion of the Reorganization, there were • Common Shares outstanding (• on a fully-diluted basis). There will be • Common Shares outstanding immediately following the closing of the Offering (• on a fully diluted basis). See “Capitalization”.
Purchase by Principal Shareholders:	Certain current shareholders of the Company, who collectively own approximately • % of the outstanding Common Shares (• % on a fully diluted basis) without giving effect to the Common Shares issuable pursuant to the Offering, have indicated their intention to purchase approximately • of the Common Shares offered pursuant to this Offering at the offering price. No commission will be paid by the Company to the Underwriters for the Common Shares purchased by these shareholders. See “Plan of Distribution”.
Use of Proceeds:	The estimated net proceeds of the Offering, after deducting the Underwriters’ fee and the expenses of the Offering, estimated to be \$ • , and assuming no exercise of the Over-Allotment Option, will be \$ • . The Company intends to use approximately 35% of the proceeds of the Offering to continue the commercial launch of the SPY System in the United States and the rest of the world, approximately 40% to conduct clinical trials for the OPTTX System, to fund additional research and development initiatives targeted towards expanding the Company’s product pipeline and to further develop the Company’s capabilities for optics and imaging software, and approximately 25% for general corporate and working capital purposes. See “Use of Proceeds”.
Dividend Policy:	The Company has not to date paid dividends on its Common Shares. The Company’s current intention is to retain earnings to fund the development and growth of its business, and therefore the Company does not anticipate declaring or paying any cash dividends in the near to medium term. The Company’s board of directors will determine if and when dividends should be paid in the future based on all relevant circumstances, including the desirability of financing further growth of the Company and the Company’s financial position at the relevant time. See “Dividend Policy”.
Risk Factors:	There are certain risk factors inherent in an investment in the Common Shares and in the activities of the Company. Prospective investors should carefully review and evaluate certain investment considerations and risks relating to the business and operations of the Company, including risks relating to: the shift from research and development to commercialization, the successful commercialization of the SPY System, the implementation of a procedural-based fee model, the dependence on suppliers, regulatory matters, the status of healthcare reimbursement, patent protection and trade secrets, third-party intellectual property infringement claims, reliance on key personnel, research and development, the fact that the Company’s business is predicated on licensed technology, growth of the practice of feeder vessel therapy as a treatment of Wet AMD, the risk that clinical trials of the OPTTX System may be

unsuccessful, potential product liability, market competition and technological advances and foreign exchange fluctuations. In addition, the Offering is susceptible to a number of risks. These risks, and other risks associated with an investment in the Common Shares, include risks relating to the: use of proceeds, volatility of share price, absence of a previous market and determination of offering price, immediate dilution, future sales of common shares and the risk that the Company has not previously paid dividends. See “Risk Factors”.

NOVADAQ TECHNOLOGIES INC.

Novadaq was incorporated under the *Canada Business Corporations Act* on April 14, 2000. Prior to closing of the Offering, all of Novadaq's outstanding Class B Common Shares and Class C Preference Shares will be converted into Class A Common Shares. The articles of the Company will also be amended to, among other things, delete the Class B Common Shares and the Class C Preference Shares, to rename the Class A Common Shares as Common Shares and to consolidate the Common Shares on a one-for-two basis. See "Reorganization" and "Description of Share Capital".

The registered and principal office of the Company is located at 2585 Skymark Avenue, Suite 306, Mississauga, Ontario, L4W 4L5.

THE COMPANY

Overview

Introduction and History

The Company develops and commercializes medical devices based on its proprietary imaging platform for the diagnosis and treatment of human vascular and ophthalmic diseases and conditions. The Company's SPY System, which consists of an intra-operative imaging device and a consumable kit that is used in each imaging procedure, has received all necessary regulatory approvals and clearances for use in CABG surgery in the United States, Canada, the European Union and Japan. Novadaq has commenced commercial sales of the SPY System in Japan and is in the first stage of a strategic commercial launch of the SPY System in the United States. To date, management believes the SPY System has been used in over 2,000 CABG procedures worldwide. In the United States, the Company is implementing a procedural-based fee model and currently expects an end-user fee of approximately US\$475 to US\$750 per procedure performed using the SPY System.

The Company has also developed a device for the diagnosis and treatment of Wet AMD. This device, which together with the consumable kit used in the procedure is known as the OPTTX System, is currently in a clinical trial in Europe as part of the preparation for the necessary regulatory submissions for clearance and/or approvals to market the OPTTX System in the United States, Canada, the European Union and Japan.

The research underlying the Company's imaging platform was initially conducted at the National Research Council of Canada, where one of the Company's founders developed a working model of an imaging device designed to improve the efficacy of cardiovascular surgery. This device was the precursor of the SPY System. During the same period that the SPY System was under development, similar imaging research was also being conducted at The Johns Hopkins University in Baltimore, Maryland, although the focus of this research was on the development of a device capable of both diagnosing and treating Wet AMD. This device was the precursor of the OPTTX System.

The Company was founded in 2000 and obtained an exclusive worldwide license from the National Research Council of Canada for the principal intellectual property rights underlying the SPY System. The Company subsequently acquired an exclusive worldwide license from The Johns Hopkins University for the principal intellectual property rights underlying the OPTTX System in 2001 and 2002.

The SPY System received regulatory approval in Japan in August 2003, and the Company began commercialization of the SPY System in Japan in October 2003. On January 19, 2005 the Company received 510(k) clearance from the FDA for use of the SPY System in the United States during CABG surgery on the basis of the SPY System being substantially equivalent, from a regulatory perspective, to two existing angiography devices.

Since 2001, the Company has continued to refine and develop the design of the OPTTX System, and is now planning to pursue device-based regulatory clearances and/or approvals in the United States, Canada, the European Union and Japan for use of the OPTTX System in the diagnosis and treatment of Wet AMD. The Company is currently conducting a clinical trial in Italy, and is planning a clinical trial in Canada, with the OPTTX System in preparation for the necessary regulatory submissions. Management expects that the Company will apply to the applicable regulatory authorities in Europe and Canada for the necessary clearances or approvals in the second half of this year. The Company expects that the time frame for receiving regulatory decisions from these regulatory authorities will be approximately three to six months after application is made. In the United States, management plans to seek additional guidance from the FDA in the second half of this year to determine the appropriate regulatory pathway for securing marketing authorization. The regulatory pathway will affect when the Company will be able to file the application for marketing authorization, which could vary from the second half of this year to three years from now. Depending upon

the applicable clearance/approval pathway, the Company anticipates that it would receive a decision from the FDA between approximately six months and one year after application is made.

Novadaq's Technology Platform

The Company's technology platform leverages the integration of three technologies: laser technology, sophisticated imaging technology and Indocyanine Green ("ICG") as a fluorescing agent. The integration of these technologies provides the Company with the capability to visualize real-time natural blood flow in vessels as small as five microns in diameter at a speed of 30 frames per second. The Company expects that this imaging platform can potentially be used in a number of devices for different therapeutic and diagnostic applications targeting human vascular and ophthalmic diseases and conditions. Management believes that the market potential for such devices is significant as a result of a number of the benefits of the Company's technology platform, including its ability to produce superior digital images, the procedural standardization that it affords and a track record of safety.

The SPY System

The SPY System enables cardiac surgeons to visually assess coronary vasculature and bypass graft functionality during the course of CABG surgery by allowing them to view, record, replay, print and archive high quality real time infrared fluorescent image sequences of the coronary arteries and bypass grafts. This visual validation improves the overall efficacy of CABG surgery as a treatment of coronary artery disease, as it allows surgeons to perform revisions, if necessary, as part of the same surgical procedure.

Coronary artery disease is the most common type of heart disease, affecting approximately 13 million Americans. Coronary artery disease may, in some cases, be treated with medications or procedures such as balloon angioplasty or stenting. In more severe cases, surgery is performed which consists of creating a new path for blood to flow around the blockage. This procedure is CABG surgery. Management believes that approximately 400,000 CABG procedures will be performed in the United States in 2005 and that approximately 720,000 CABG procedures will be performed worldwide.

There is currently no procedure that is routinely used to assess coronary artery bypass graft quality and functionality during the course of CABG surgery. Multiple clinical studies of patient populations of 100 or greater have reported early graft occlusion rates that range between 5% and 13%. In the United States, and in most other countries, non-functional grafts are usually only discovered if the patient's post operative recovery is sub-optimal, in which case a post-operative x-ray angiogram may be administered. If the post-operative angiogram shows that a graft is not functional, or has not been successful in restoring blood flow to the targeted area of the heart, additional surgery or an interventional procedure may be required. Post-operative complications from the non-functional grafts and the additional surgery required to correct non-functional grafts increase the risk of patient mortality and morbidity. In addition, repeat procedures to correct non-functional grafts within the same hospitalization period may be costly for the hospital, given that insurance providers in the United States typically only reimburse the hospital a fixed amount for a particular episode of care. Management believes that these factors, as well as the increasing oversight pertaining to mandatory medical error reporting and malpractice suits in the United States, create a significant market opportunity for a device such as the SPY System, which, as reported in several studies, allows cardiac surgeons to reliably and conveniently detect bypass graft anomalies while the patient is still in the operating room, thereby reducing the potential for costly post-operative complications or repeat surgeries.

The currently available technologies for assessing coronary artery bypass graft functionality, such as x-ray angiography and flow measurement technology, are either not practical for intra-operative use or have other limitations. Specifically, x-ray angiography is time consuming, taking up to an additional hour of operative time to perform, and also requires specially equipped operating rooms that largely do not exist today, bulky, heavy ionizing radiation protective gear and the catheterization of the CABG patient's coronary vessels. Flow measurement is generally not considered capable of effectively validating the revascularization of the heart. In contrast, the SPY System is safe, reliable, non-invasive and easy to use, and adds only two to three minutes per graft of additional operative time. The SPY System therefore offers cardiac surgeons a quick and cost-effective means of visually assessing coronary vasculature and bypass graft functionality during the course of CABG surgery while the patient is still in the operating room, allowing cardiac surgeons to address any bypass graft concerns before completing the CABG surgery.

The Company has commenced commercial sales of the SPY System in Japan and is in the first stage of a strategic commercial launch of the SPY System in the United States. The Company is initially focusing commercialization

efforts in the United States on placing the SPY System in five select medical centers and to date has already placed or made arrangements to place the SPY System with Stanford University Medical Center in Palo Alto, California, Medical City Hospital in Dallas, Texas, the Cleveland Clinic in Cleveland, Ohio, Lennox Hill Hospital in New York, New York, and the Methodist Hospital DeBakey Heart Center in Houston, Texas. The Company has received purchase orders from each of these sites, and is beginning to generate revenue from procedures performed at installed sites. Management believes that positive endorsement from surgeons in these sites, some of which have historically played a role in the adoption and standardization of other new cardiac surgery advances, would accelerate the routine use of the SPY System in CABG surgery, and therefore potentially encourage the wider scale adoption of the SPY System. Management also expects that these initial placement experiences will provide the Company with valuable information on the most effective and efficient sales channel for the SPY System, both in the broader United States and worldwide cardiac surgery markets. The Company currently expects that as it formulates its broader United States commercialization strategy it will partner with an established device distributor.

OPTTX System

The OPTTX System is a device designed for the diagnosis and treatment of Wet AMD. AMD is a degenerative condition of the macula, which results in the loss of central vision. The macula is the central part of the retina and is located at the back of the eye. The most common symptoms of AMD include central distortion, loss of contrast sensitivity and loss of colour vision, none of which can be corrected by traditional aids such as glasses or contact lenses. There are two types of AMD: a dry form and a wet form. Wet AMD affects approximately 1.8 million Americans and is the leading cause of blindness among people over the age of 50 in the industrialized world. The National Eye Institute of the United States National Institutes of Health reports that in addition to those already affected by the disease, there are another 7.3 million Americans who are at substantial risk of developing Wet AMD. There are approximately 500,000 new Wet AMD patients identified annually worldwide, with approximately 250,000 of those diagnosed in the United States. Management expects the incidence of Wet AMD to increase significantly as the United States population ages and as overall life expectancy increases.

Patients with Wet AMD experience abnormal blood vessel growth in the back of their eyes. These abnormal vessels grow out of the choroidal vasculature of the eye, and this growth is known as CNV. The vessels of the CNV are thin and porous and therefore blood and fluid leak into the space below the retina. This causes the retina to be lifted upward, which disturbs the focus of the eye. As the condition worsens, the blood and fluid leakage causes damage to the retinal cell layer, which results in loss of central vision. The CNV is supplied by at least one and as many as four arteries originating deep in the choroidal layer at the base of the arterial infrastructure of the eye. These supply arteries are known as feeder vessels. These feeder vessels are the sole supply of blood and nutrients for the CNV.

Since the cause of AMD is not known, Wet AMD treatments typically focus on treating the symptoms in an attempt to reduce abnormal blood vessel growth and leakage, thereby minimizing the vision loss resulting from the CNV vessels. There are currently very few approved therapies available. The OPTTX System enables retinal specialists to perform a type of laser treatment for Wet AMD known as feeder vessel therapy. Feeder vessel therapy involves identifying the abnormal feeder vessels that are associated with the CNV and then photocoagulating, or cauterizing, those abnormal vessels by the application of precisely targeted laser energy.

Retinal specialists have practiced laser photocoagulation for the treatment of Wet AMD, the precursor of feeder vessel therapy, since the 1970's. Feeder vessel therapy is currently performed using two separate devices: an imaging device to locate the abnormal feeder vessels and a treatment device, such as a slit lamp laser, to photocoagulate or cauterize the abnormal feeder vessels. The conventional treatment device is not capable of imaging the abnormal feeder vessels, which are located behind the retina. As a result, feeder vessel therapy, as currently practiced, first involves the use of an imaging procedure to generate a "hand tracing" or photograph of the eye that identifies the vascular landscape, including the abnormal feeder vessels and the target treatment area. The treatment is then administered by a separate laser device using a technique called "painting", which involves firing a cauterizing laser in small bursts in and around the area where, based on this prior map, the retinal specialist believes the feeder vessel to be located. The need to use two different devices makes feeder vessel therapy a time-consuming and technically difficult procedure, and management believes that as a result of these limitations only a small number of retinal specialists currently perform feeder vessel therapy. Despite these limitations, however, feeder vessel therapy, as it is currently practiced, is a safe and relatively effective treatment for most Wet AMD conditions.

The Company believes that by combining imaging and treatment capabilities into a single device, the OPTTX System has the potential to make feeder vessel therapy more practical and easier to perform, and may also increase the accuracy and effectiveness of feeder vessel therapy. Management expects that this will in turn make feeder vessel therapy a more attractive treatment option for both retinal specialists and most Wet AMD patients, either on its own or in combination with other accepted treatments for Wet AMD.

The Company has undertaken clinical trials aimed at demonstrating the safety and effectiveness of feeder vessel therapy performed using the OPTTX System. The Company is currently conducting an additional clinical trial in Europe, and is planning a clinical trial in Canada, with the OPTTX System in preparation for the necessary regulatory submissions. Management expects that the Company will apply to the applicable regulatory authorities in Europe and Canada for the necessary clearances or approvals in the second half of this year. The Company expects that the time frame for receiving regulatory decisions from these regulatory authorities will be approximately three to six months after application is made. In the United States, management plans to seek additional guidance from the FDA in the second half of this year to determine the appropriate regulatory pathway for securing marketing authorization. The regulatory pathway will affect when the Company will be able to file the application for marketing authorization, which could vary from the second half of this year to three years from now. Depending upon the applicable clearance/approval pathway, the Company anticipates that it would receive a decision from the FDA between approximately six months and one year after application is made. If the Company receives the necessary marketing authorization, then the Company's marketing strategy will be to establish the OPTTX System as the first line of both diagnosing and treating all sub-types and lesion types of Wet AMD, whether alone or in combination with other Wet AMD treatments.

Strengths

The Company intends to become a market leader in the development and commercialization of medical devices for the diagnosis and treatment of human vascular and ophthalmic diseases and conditions. The Company intends to achieve this goal by leveraging its strengths, which include:

- **Leverageable Proprietary Technology Platform.** The Company's successful integration of ICG (as a fluorescing agent), laser technology and sophisticated imaging technology into a single technology platform provides the Company with the capability to visualize real-time natural blood flow in vessels as small as five microns in diameter at a speed of 30 frames per second. The Company expects that it may be able to use this imaging platform to develop and commercialize devices, in addition to those used in the SPY System and the OPTTX System, that can potentially be used in numerous different therapeutic and diagnostic applications targeting human vascular and ophthalmic diseases and conditions.
- **Proven Ability to Successfully Commercialize a Medical Device.** The Company has demonstrated an ability to develop and achieve regulatory approval or clearance on its first product, the SPY System, for use in CABG surgery in the United States, Canada, the European Union and Japan. The Company has progressed this product to commercialization in the United States and Japan. To date, management believes that the SPY System has been used in over 2,000 CABG procedures worldwide.
- **SPY System Aimed at a Significant Unmet Medical Need.** The Company's SPY System enables cardiac surgeons to visually assess coronary artery bypass graft quality and function during CABG surgery. The ability to quickly, easily and reliably image blood flow in the heart during CABG surgery potentially positions the SPY System to be the standard of care for imaging during CABG surgery.
- **Substantial Market Opportunity in the Diagnosis and Treatment of Wet AMD.** The Company has used its technology platform to develop the OPTTX System for the diagnosis and treatment of Wet AMD, a condition that affects vision in approximately 1.8 million Americans. Management believes that feeder vessel therapy performed using the OPTTX System has the potential to be a viable first-line treatment for all sub-types and lesion types of Wet AMD. Management expects that the OPTTX System, if approved for use in the United States and elsewhere, could become an attractive treatment option for both retinal specialists and most Wet AMD patients, either as a stand alone procedure or in combination with other accepted treatments for Wet AMD.
- **Compelling Economic Model.** The Company is implementing a procedure-based pricing model for the SPY System in the United States. This model will not require hospitals to make any capital outlay in order to adopt the SPY System for use in CABG surgeries and is expected to provide the Company with a stable and ongoing revenue stream from procedures. The Company intends to place the SPY intra-operative imaging device in

hospitals and currently expects an end-user fee, ranging from approximately US\$475 to US\$750, for each procedure performed using the SPY System. In respect of physician and hospital reimbursement, procedures conducted in the United States using the SPY System are being billed under existing global CABG reimbursement codes, and professional fees are being billed under existing angiography and angiography interpretation reimbursement codes. The Company also intends to implement a procedure-based pricing model for the OPTTX System in the United States, if it is cleared or approved by the FDA.

- ***Focus on Medical Devices Reduces Time to Markets.*** Novadaq uses its proprietary imaging platform to develop medical devices for specific diagnostic and therapeutic procedures. It generally takes less time and is less costly to obtain approvals or clearances for a new medical device than for a new drug. New medical devices often receive clearance in the United States on the basis of substantial equivalence to an existing medical device or, alternatively, through a two to three year “pre-market approval” procedure designed to establish safety and effectiveness. In contrast, new drug approval applications often require larger and costlier non-clinical and clinical development programs that can take 10 years or more to complete.

Strategy

The Company’s strategies for becoming a market leading provider of medical devices for the diagnosis and treatment of human vascular and ophthalmic diseases and conditions include the following:

- ***Successfully Implement the Commercial Launch of the SPY System.*** Novadaq is currently undertaking a strategic commercial launch of the SPY System in the United States, initially focusing on the placement of the SPY System in five select revenue generating medical centers in the United States. Management believes that a positive endorsement from surgeons in these initial opinion-leading sites would accelerate the routine use of the SPY System in CABG surgery, and therefore potentially encourage the wider scale adoption of the SPY System. The Company currently expects that as it formulates its broader United States commercialization strategy it will partner with an established device distributor.
- ***Obtain Regulatory Approvals for the OPTTX System.*** The Company intends to continue clinical trials for the OPTTX System to gather data required to support its regulatory submissions for the OPTTX System in the United States, the European Union, Canada and Japan, as well as the ultimate commercialization of the OPTTX System, if and when the necessary regulatory approvals are obtained. The Company also intends to market the OPTTX System in the United States using the same type of procedural-based fee model as it is implementing for the SPY System by marketing the OPTTX imaging device and the consumable kit as a single system. Reimbursement codes for ophthalmic ICG angiography and photocoagulation already exist in the United States.
- ***Develop New Applications for Existing Devices.*** The Company intends to continue to examine the potential of using its existing SPY imaging device in other diagnostic and therapeutic applications. For example, the Company is currently collaborating with the University of Rochester in Rochester, New York to develop clinical support for the use of the SPY System in prostate surgery. Other targeted diagnostic and therapeutic procedures include but are not limited to, organ transplant, peripheral and neurovascular surgery, and ear, nose and throat surgery. The Company also plans to continue to examine the potential of using the OPTTX System as a diagnosis and treatment system for other vascular diseases affecting the back of the eye such as diabetic retinopathy and retinal angiomatous proliferation.
- ***Leverage Existing Core Technology to Develop New Devices.*** The Company intends to develop next generation devices using its current core technology platform in order to establish a presence in new diagnostic and therapeutic applications, as well as to expand its potential market share within its currently targeted markets. For example, the Company intends to develop an endoscopic intra-operative imaging system for use in a broad array of current endoscopic procedures, and that if successfully implemented as contemplated, may also potentially enable or promote the adoption of new surgical techniques and technologies such as robotic procedures, thoroscopic CABG, minimally invasive CABG and other minimally invasive cardiovascular, peripheral vascular and neurovascular applications whose use to date has been limited by an inability to visualize the area of interest. The Company also intends to modify the OPTTX System to operate with variable/multiple wavelengths, which may enable the diagnosis of other back of the eye conditions such as dry AMD.

- ***Expand Intellectual Property Portfolio.*** As part of the ongoing commercial development of its imaging platform, the Company intends to continue to strengthen its current patent portfolio and to seek additional patent protection, as well as develop its intellectual property for new applications of its imaging platform that may be exploited directly by the Company or licensed to third parties.

INDUSTRY OVERVIEW

Coronary Artery Disease

Coronary artery disease is the most common type of heart disease, affecting approximately 13 million Americans. It is the single largest cause of death amongst Americans, causing one of every five deaths in the United States in 2002. Approximately every 26 seconds an American suffers an adverse coronary artery event.

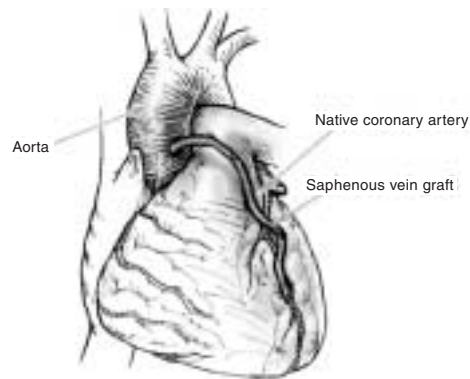
Coronary arteries are the small blood vessels that supply the heart muscle with oxygen and nutrients. Coronary artery disease is caused by atherosclerosis, commonly known as a narrowing or hardening of the arteries. Atherosclerosis occurs when fatty deposits and cholesterol build up on the inside walls of arteries. These deposits are called plaque. As plaque builds up over time, the lining of the artery becomes thick and hardened, causing restricted or blocked blood flow within the coronary arteries leading to the heart, which damages the heart muscle due to a lack of oxygen. This damage can cause angina (chest pain), myocardial infarction (heart attack) and other complications, including death.

Coronary artery disease may, in some cases, be treated with medications, such as blood thinners, and other medications to enlarge or dilate the affected arteries and reduce the progression of atherosclerosis. Other potential treatments include balloon angioplasty (which uses a balloon-tipped catheter to flatten plaque and therefore increase the blood flow through the arteries past the deposits) or stenting (which involves implanting a small metal device inside the artery, usually following angioplasty, to keep the artery open). In more severe cases surgery is performed, which consists of creating a new path for blood to flow around the blockage. This procedure is called coronary artery bypass graft ("CABG") surgery.

Coronary Artery Bypass Graft Surgery

Coronary artery bypass graft surgery was developed in the 1960's to treat coronary artery disease, and in essence involves the creation of an alternative supply of blood to the heart that bypasses the damaged or blocked part of the coronary artery. Bypass surgery involves two surgical procedures: first, the creation of a bypass graft out of a segment of a healthy blood vessel from another part of the body and second, attaching the bypass graft to the heart or coronary vasculature to allow blood to detour around the damaged or blocked part of the coronary artery. The bypass graft is generally created by either detaching an artery from the chest wall and then reattaching the artery to the coronary artery below the blocked area, or by removing an artery or vein from one area of the body and attaching it to the aorta, at one end, and to the coronary artery below the blocked area at the other end. Once the graft has been attached, and assuming that the graft is functional and has addressed the actual blockage in the coronary arteries, blood will use the bypass to flow freely to the heart muscle. The number of coronary arteries blocked will determine the number of bypasses required. On average there are three grafts created per CABG procedure.

The following illustration shows an example of a coronary artery bypass graft created by using a saphenous vein from the patient's leg:



The American Heart Association's 2005 Statistical Update reported that in 2002 approximately 515,000 CABG procedures were performed in the United States. Management believes that in 2002 approximately 850,000 CABG procedures were performed worldwide, and that approximately 400,000 CABG procedures will be performed in the United States in 2005 and approximately 720,000 CABG procedures will be performed worldwide.

Recently the number of CABG procedures performed each year has been reported to be gradually declining, which is thought in part to be a result of the improvement in early coronary intervention techniques such as balloon angioplasty and stenting. Coronary artery disease is, however, a progressive condition, and management expects that over time the total number of CABG procedures will remain relatively consistent or increase as patients with coronary artery disease live longer and, over time, develop more complex coronary artery disease conditions. Moreover, management expects that as a result of the improvement in early coronary intervention techniques, coronary artery disease patients who present for first-time CABG surgery will, in the future, generally be less healthy than current CABG patients and will present with more complicated coronary artery conditions. This change in patient profile will likely place an increased emphasis on the need to confirm and validate the effectiveness of the coronary artery bypass graft procedure in restoring blood flow to the CABG patient's heart. In addition, management believes that improved visualization and validation techniques may enable the development and adoption of less invasive CABG procedures, which may in turn alter the current risk/benefit profile of CABG surgery, thereby making CABG procedures more attractive to patients suffering from coronary artery disease.

Current Methods for Assessing Coronary Artery Bypass Graft Functionality

There is currently no procedure that is routinely used to assess coronary artery bypass graft quality and functionality during the course of CABG surgery. Multiple clinical studies of patient populations of 100 or greater have reported early graft occlusion rates that range between 5% and 13%. Post-operative x-ray angiography is not routine in the United States or in most other countries and therefore these non-functional grafts are usually only discovered if the patient's post-operative recovery is sub-optimal, in which case a post-operative x-ray angiogram may be administered. If the post-operative angiogram shows that a coronary artery bypass graft is not functional, or has not been successful in restoring blood flow to the entire heart, additional surgery or an interventional procedure may be required. Post-operative complications from the non-functional grafts and the additional surgery required to correct non-functional grafts increase the risk of patient mortality and morbidity. In addition, repeat procedures to correct non-functional grafts within the same hospitalization period may be costly for the hospital, given that insurance providers in the United States typically only reimburse the hospital a fixed amount for a particular episode of care. Management believes that these factors, as well as the increasing oversight pertaining to mandatory medical error reporting and malpractice suits in the United States, create a significant market opportunity for a device such as the SPY System, which, as reported in several studies, allows cardiac surgeons to reliably and conveniently detect bypass graft anomalies while the patient is still in the operating room, thereby reducing the potential for costly post-operative complications or repeat surgeries.

The currently available technologies for assessing coronary artery bypass graft functionality, such as x-ray angiography and flow measurement technology, are either not practical for intra-operative use or have other limitations.

For example, x-ray angiography, although an effective means of assessing coronary vasculature and bypass graft functionality, is not generally practical for intra-operative use because:

- it requires specially equipped operating rooms that largely do not exist today;
- it requires the patient and the operating room staff to wear bulky, heavy ionizing radiation protective gear;
- it is difficult to properly position the x-ray equipment used in the procedure without disrupting the sterile operating field;
- it requires the catheterization of the coronary vessels of the CABG patient; and
- it is a time-consuming procedure, adding up to an hour to anesthesia, heart-lung bypass and operative procedural times, which poses increased risk to CABG patients.

Similarly, flow measurement technology:

- does not provide visual images and can only measure blood flow at the point that the probe contacts the vessel;
- relies on the correct interpretation of flow patterns, reducing the reproducibility and reliability of the measurement; and
- cannot confirm the effectiveness of the bypass graft in revascularizing the heart.

In contrast, the SPY System offers cardiac surgeons a quick and cost-effective means of visually assessing coronary vasculature and bypass graft functionality during the course of CABG surgery while the patient is still in the operating room, allowing cardiac surgeons to address any bypass graft concerns before they finish the CABG surgery.

Age Related Macular Degeneration

The Human Eye

The human eye is composed of focusing elements (the lens and the cornea) and a light-sensing element in the back (the retina). The brain processes the signals sent by the retina through the optic nerve into vision. The central part of the retina is the macula, which is the region responsible for seeing colour and for activities such as reading, face recognition and watching television. An illustration of the human eye is set out below:

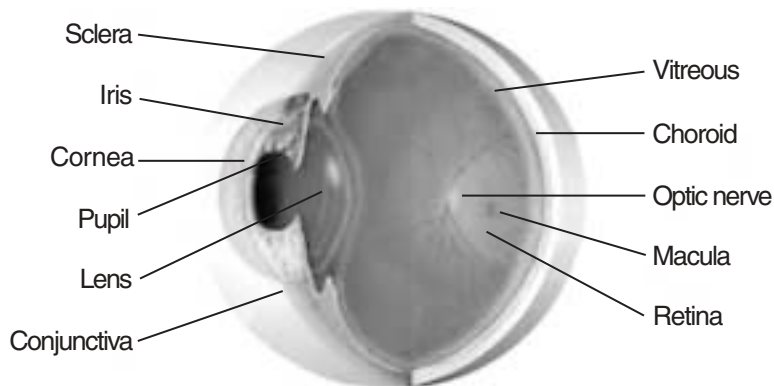
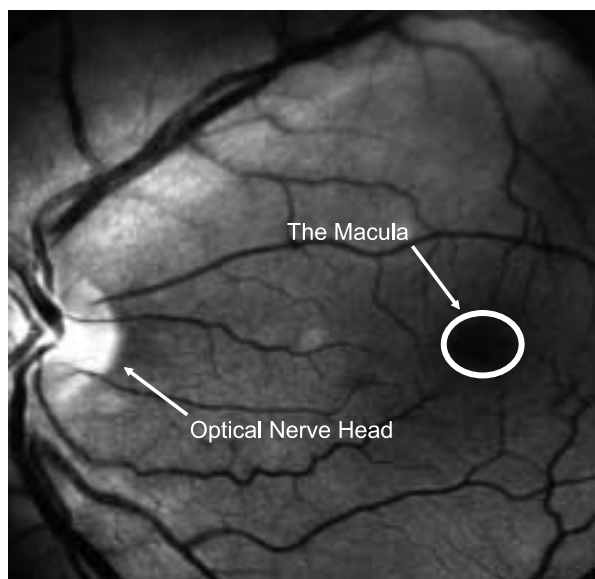


Illustration by Mark Erikson

The following is a photograph of the back of the eye taken with the second generation OPTTX System.



AMD

Age-Related Macular Degeneration (“AMD”) is a degenerative condition of the macula, which is the central part of the retina and is located at the back of the eye, as shown in the picture above. This degeneration results in the loss of central vision. The most common symptoms of AMD include central distortion, loss of contrast sensitivity and loss of colour vision, none of which can be corrected by traditional visual aids such as glasses or contact lenses.

AMD is a progressive eye condition affecting as many as 15 million Americans and millions of other people around the world. It is the leading cause of vision loss and legal blindness among adults in the United States over the age of 50. According to a ten-year study published in *Ophthalmology* in October 2002, the prevalence of AMD among a selected sample of the United States population increased sharply with age, from approximately 28.0% among people 65 to 74 years of age to 46.2% among people 75 years and older. As the North American population ages and life expectancy increases, it is expected that the number of people with AMD will increase. The precise cause of AMD is not known, and there is currently no cure.

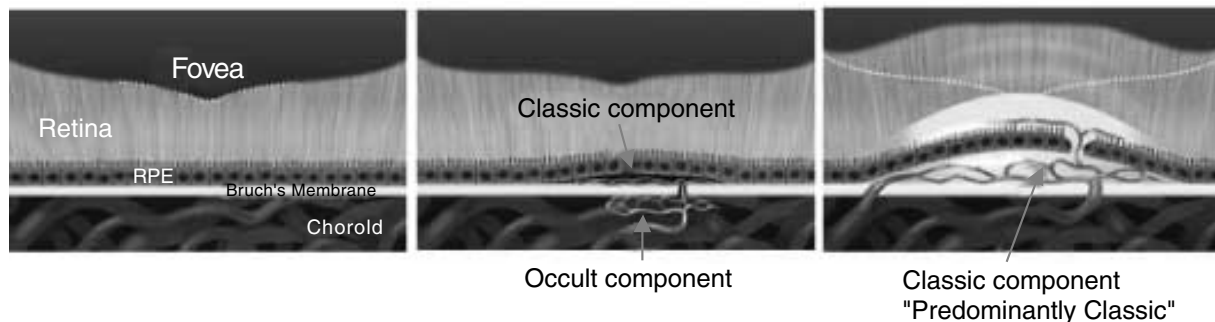
There are two types of AMD: a dry form and a wet form. It is possible to experience both forms at the same time in one or both eyes. The onset and progression of either type does not follow a definitive pattern. In some cases, progression can be relatively slow, and patients may not notice a change in their vision until the disease becomes quite progressed. Other patients experience a much more rapid loss of vision.

Wet AMD is the more severe form of AMD. It accounts for approximately 10% to 15% of all AMD patients and 90% of all legal blindness caused by AMD. The National Eye Institute of the United States National Institutes of Health reports that 1.8 million Americans have Wet AMD and there are another 7.3 million people in the United States who are at substantial risk of developing Wet AMD. There are approximately 500,000 new Wet AMD patients identified annually worldwide, with approximately 250,000 of those diagnosed in the United States.

In the normal eye, the choroidal vasculature lies underneath Bruch’s membrane, and supplies a major portion of blood flow that supports the macula, as illustrated below. In Wet AMD, new vessels grow out from the choroidal vasculature and penetrate upward into, and into and through, Bruch’s membrane. This is known as choroidal neovascularization (“CNV”). The CNV is a network of abnormal blood vessels that are supplied by at least one or as many as four arteries which originate in the choroidal layer at the base of the arterial infrastructure of the eye. These supply arteries are known as feeder vessels. These feeder vessels are the sole supply of blood and nutrients for the CNV. The vessels of the CNV are thin and porous and therefore blood and fluid leak into the space below the retina. This causes the retina to be lifted upward, which disturbs the focus of the eye. As the condition evolves, the blood and fluid leakage causes damage to the retinal cell layer, which results in loss of central vision. When the CNV lies very near or beneath the macula, the result can be rapid, irreparable damage to the macula resulting in loss of central vision.

Wet AMD occurs in two forms: classic and occult, as determined by the appearance of the CNV on fluorescein angiograms. Classic lesions, which can be further subdivided into predominantly classic and minimally classic, have well-defined boundaries, and are typically formed as a result of the lesion breaking through Bruch's membrane and forming in the space either below the Retinal Pigment Epithelial membrane ("RPE") or through the RPE. Occult lesions do not have well defined boundaries and generally are located in the choroidal layer or in Bruch's membrane, where there is higher resistance to blood flow. Most Wet AMD patients have both types of CNV in some proportion. In addition, the CNV lesions are frequently described with reference to their geographical location in relation to the fovea. Lesions can be considered extrafoveal, juxtafoveal or subfoveal.

The following illustrations show a healthy eye (left) and a diseased state due to the growth of abnormal CNV into the macular tissue of the eye supplied by one or more feeder vessels from the choroidal area (right and centre). The center illustration shows occult CNV lesions, and the illustration on the right shows classic CNV lesions.



Treatment Alternatives for Wet AMD

Since the cause of AMD is not known, Wet AMD treatments typically only focus on treating the symptoms in an attempt to reduce abnormal blood vessel growth and leakage, thereby minimizing the vision loss resulting from the CNV vessels. There are currently very few approved therapies available. Wet AMD treatments can be generally divided into three broad categories based on the mechanism of action and the route of administration:

- drug treatments that are delivered by injections either into the eye or in and around the back of the eye;
- combination drug and device treatments that combine an intravenous drug that is activated by a visible light laser (photodynamic therapy); and
- device-based treatments.

Drug-Based Therapies

Drug-based therapies are generally designed to inhibit the proliferation of the abnormal blood vessels that make up the CNV, thereby reducing the damage they cause to the retina. These drug therapies, such as Macugen and Lucentis, generally involve repeat, multiple injections of drugs directly into the eye or retina on a frequent basis. Retaane is injected around the eye to the back of the eye with a specially designed injector. Macugen is currently the only approved drug therapy in the United States for all sub-types of Wet AMD, but it is not currently approved in any other jurisdiction other than Canada. The Macugen treatment regimen requires an average of 17 injections into the patient's eye over a two-year period. The safety and efficacy of Macugen has not been reported beyond two years. Lucentis and Retaane are currently still under clinical development, and long-term efficacy and safety data are still pending.

Photodynamic Therapy

Photodynamic therapy (PDT) with Visudyne, which was developed by QLT Inc., involves the use of a light-activated drug and a laser to activate the drug. This drug is first administered systemically over a 20-minute period by intravenous infusion, after which a broad visible wavelength laser light is delivered to the eye in order to activate the drug, which then coagulates and reduces the growth of CNV vessels. PDT generally slows the rate of vision loss in Wet AMD patients, but it does not stop vision loss or restore vision in eyes already damaged by Wet AMD. The treatment must be periodically repeated over the course of two years. The treatment is approved for use in those patients with predominantly classic CNV, which accounts for approximately 25% of all Wet AMD patients.

In the separate pivotal studies conducted for the market approval of Macugen and Visudyne, approximately 41% of treated Wet AMD patients still experienced significant vision loss, being the loss of more than three lines of vision, as measured on the Early Treatment Diabetic Retinopathy Study (“ETDRS”) chart, at the 24-month follow-up period.

Device Based Treatments

Feeder vessel therapy is a device-based treatment that targets the abnormal feeder vessels that supply the CNV network that form in and from the choroidal layer into the space below the patient’s retina. This treatment uses a laser to target and photocoagulate or cauterize the abnormal feeder vessels behind the retina, thereby causing the collapse of the related CNV network. It is hypothesized that the collapse of the CNV vessels substantially prevents further damage to the patient’s vision, and may actually improve vision by allowing the retina to settle back into its original place.

Retinal specialists have practiced laser photocoagulation for the treatment of Wet AMD, the precursor of feeder vessel therapy, since the 1970’s. Since laser photocoagulation was first introduced, it has undergone substantial evolution, changing from a relatively imprecise and ineffective visible light laser treatment of the relatively large CNV network or blood vessels associated with Wet AMD to a more targeted and precise infrared laser treatment of the feeder vessels that support the lesions associated with Wet AMD. Current feeder vessel therapy is a viable treatment option for a majority of Wet AMD patients in whom a feeder vessel is visible.

In the December, 1998 issue of *Ophthalmology*, results of a study using two-device feeder vessel therapy were reported. This study, which involved the treatment of a total of 31 Wet AMD patients in whom feeder vessels could be clearly detected by means of ICG angiography, produced positive visual outcomes (i.e., a positive change in visual acuity of between one and 10 lines) for 16 of the 31 patients, and produced no change in visual acuity for a further nine patients. A total of six patients lost between two and six lines. A “line” is one line of five letters on the ETDRS chart. Similarly, another study published in *Ophthalmology* in April, 1998, which involved the treatment with two-device feeder vessel therapy of 37 Wet AMD patients in whom feeder vessels could be clearly detected by means of ICG angiography, produced stable or improved vision (by two or more lines) in 25 of the 37 patients. In the remaining 12 patients, visual acuity decreased two or more lines. Management believes that the results of these studies, although not statistically significant, suggest that feeder vessel therapy is a relatively effective and safe treatment for Wet AMD.

Feeder vessel therapy is currently performed using two separate devices: an imaging device to locate the abnormal feeder vessels and a treatment device, such as a slit lamp laser, to photocoagulate or cauterize the feeder vessels. The conventional treatment device is not capable of imaging the abnormal feeder vessels, which are located behind the retina. As a result, feeder vessel therapy first involves the use of an imaging procedure such as ICG angiography to generate a “hand tracing” or photograph of the eye that identifies the vascular landscape, including the abnormal feeder vessels and the target treatment area. The treatment is then administered by a separate laser device using a technique called “painting”, which involves firing a cauterizing laser in small bursts in and around the area where, based on this prior map, the retinal specialist believes the feeder vessel to be located. If the treatment is successful then the abnormal feeder vessel will be closed, ultimately resulting in the collapse of the CNV vessels supported by the feeder vessel. The need to use two devices makes feeder vessel therapy a time-consuming and very technically difficult procedure. As a result, although the American Academy of Ophthalmology indicates that there are approximately 1,800 retinal specialists in the United States, management believes that only a small number of these retinal specialists currently perform feeder vessel therapy.

The Company believes that by combining imaging and treatment capabilities into a single device, the OPTTX System has the potential to make feeder vessel therapy more practical and easier to perform, and has the potential to increase the accuracy and effectiveness of feeder vessel therapy. Management believes that the very high-speed, high-resolution ICG angiography capabilities and Phi-motion software offered by the OPTTX System will enable retinal specialists to visualize feeder vessels in approximately 80% of all Wet AMD patients. Management expects that the OPTTX System will make feeder vessel therapy a more attractive treatment option for both retinal specialists and most Wet AMD patients, either on its own or in combination with other accepted treatments for Wet AMD.

BUSINESS OF THE COMPANY

Product Overview

SPY™ Intra-Operative Imaging System

The SPY System enables cardiac surgeons to assess coronary vasculature and bypass graft functionality during the course of CABG surgery by allowing them to view, record, replay, print and archive high quality real time infrared fluorescent image sequences of the coronary arteries and bypass grafts. During the procedure ICG is administered to the patient intravenously through an existing central intravenous access line or the bypass pump. As ICG flows through the coronary vasculature, an 806 nanometer (nm) laser light source is positioned over the heart, illuminating a 7.6×7.6 centimeter area of the heart surface. Absorption of the laser light causes excitation of the ICG, resulting in the emission of infrared energy at a wavelength of 830 nm. This creates a fluorescent image of the coronary blood vessels and bypass grafts. A charge coupled device camera with an 830 nm optical band-pass filter captures these images. The SPY System is capable of capturing up to 30 seconds of images within one sequence, which fully enables the SPY System to capture the passage of the ICG through the coronary vasculature and bypass grafts. During imaging, the ICG is visualized sequentially filling various vessels of the coronary beds (coronary arteries, microvasculature and veins). The resulting images are shown on the SPY System's display and are recorded by a computer for data storage. No software processing of the images is required during the CABG procedure.

The SPY System's laser illumination lens, optical filters, charge coupled device camera and focus detector are all contained in the housing of the SPY Intra-Operative Imaging System. The SPY lens, filters, camera and focus detector are mounted on an articulating arm that is positioned approximately 30 centimeters above the heart. The articulating arm stays in place once positioned, and carries the electrical cables to the camera and the fibre optic bundle from the laser. A computer mouse control is used for initiating the laser and for replaying the images generated by the SPY System. The software used by the SPY System is generally compatible with existing hospital image archiving software, allowing for easy archiving of the images generated by the SPY System.

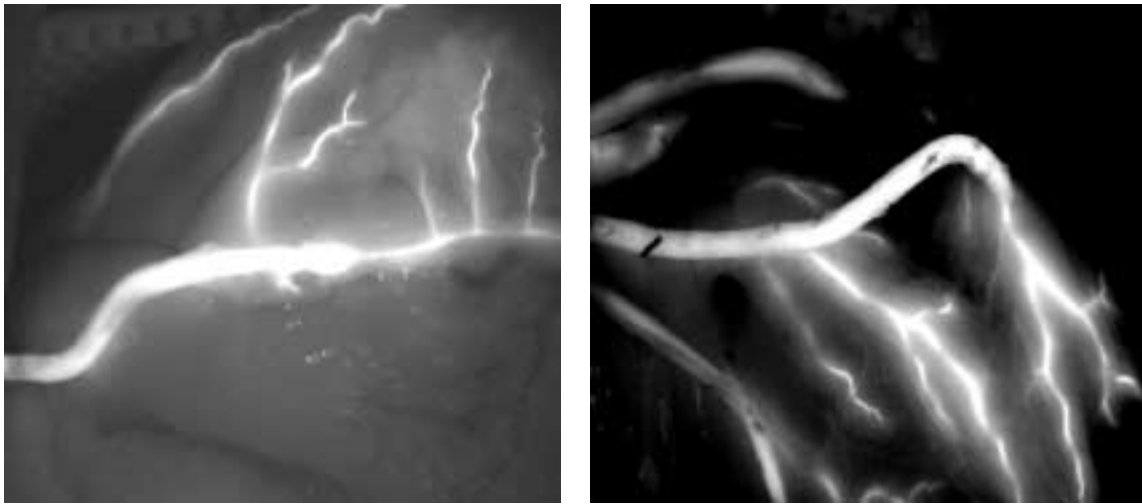
The SPY Kit consists of the consumable components used during each imaging procedure, including a supply of custom sterile drapes and/or a supply of ICG. The custom sterile drape that forms part of the SPY Kit covers the housing box and articulating arm of the SPY System. The arm is mounted on a mobile cart with locking wheels, allowing the cart to be easily moved around or between operating rooms, but also to be securely positioned in place when needed.

The following are pictures of the SPY intra-operative imaging device and of the SPY System in use in the operating room. The picture on the right shows the complete SPY intra-operative imaging device, and the pictures on the left show cardiac surgeons using the SPY System during the course of CABG surgery to assess bypass graft quality and functionality.

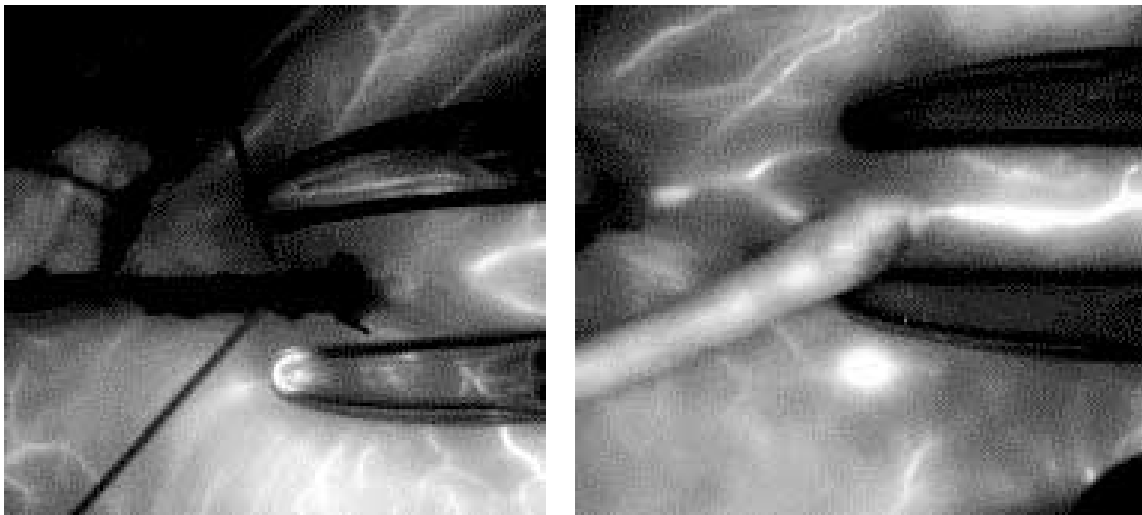


A cardiac surgeon uses the images generated by the SPY System to intra-operatively visually evaluate the integrity of the coronary vessels and bypass grafts. Pre-bypass, but after the CABG procedure has commenced, the SPY System images enable the cardiac surgeon to locate the coronary arteries with compromised blood flow and to confirm his or her operative plan. Immediately following the bypass, and while the patient is still in the operating room, the SPY System images can be used to confirm the quality of the bypass graft and the overall success of the bypass procedure. The entire SPY System imaging procedure requires only approximately two to three minutes per graft of additional operative time.

The following are examples of images derived from the use of the SPY System. The pictures show post-bypass graft images of the blood flowing through the bypass grafts.



The following are additional examples of images derived using the SPY System. The picture on the left shows a graft with no blood flow, and the picture on the right shows a functional graft with blood flow after a revision.



To date, management believes that the SPY System has been used in over 2,000 CABG procedures worldwide. The following are some of the peer-reviewed conclusions reached on the use of the SPY System to date:

- In March 2005, in an abstract presented during the 2005 American College of Cardiology Scientific Sessions, it was concluded that based on a study of 120 CABG patients at Sunnybrook and Women's College Health Sciences Centre in Toronto, Ontario, receiving a total of 336 bypass grafts, the SPY System detected grafts that required revision in 8% of patients. In this same abstract, the investigators concluded that given the anatomic complexity of current CABG patients, ICG angiography using the SPY System can "reliably ensure intra-operative technical perfection."
- It was reported in the *Journal of Thoracic and Cardiovascular Surgery* 2004 that in a study of 200 CABG patients receiving 533 grafts, the SPY system detected the need for graft revision in 4% of patients.
- It was reported in *Interactive Cardio-Vascular and Thoracic Surgery* 2004 that in a study of 72 CABG patients receiving 290 grafts, the use of the SPY System for intra-operative graft validation during off-pump CABG "may become the gold standard for surgical management in the near future."

The Company intends to initially position the SPY System as the first and only fluorescent imaging system to enable cardiac surgeons to accurately and consistently confirm the location of the blocked coronary arteries, visually assess CABG functionality and confirm revascularization of the heart during CABG procedures. The SPY System:

- is a practical and cost-effective means for cardiac surgeons to visually validate coronary artery bypass graft quality and function during the course of CABG surgery, requiring only two to three minutes of additional operative time per bypass graft;
- can be utilized to visually assess bypass graft functionality while the patient is still in the operating room, thereby reducing the potential for post-operative complications and costly repeat surgeries;
- is non-intrusive in the operating room and can be easily positioned as required during the course of CABG surgery; and
- is a highly reproducible procedure which has been demonstrated to be safe, reliable, non-invasive and easy to use.

Management believes that the SPY System is ideally suited for use during CABG procedures and can significantly contribute to intra-operative therapeutic decision-making and improve post-operative patient outcomes.

OPTTX System

The OPTTX System is intended for the diagnosis and treatment of all sub-types and lesion types of Wet AMD. It combines into a single device the optical system of a stereofundus camera, modified to acquire high-speed, high-resolution ICG fluorescence angiograms, and a near-infrared wavelength laser diode photocoagulator. This combination incorporates into a single device the functions of the two devices traditionally required to deliver feeder vessel therapy: one to image the CNV and feeder vessels and another to photocoagulate or cauterize the feeder vessels. This in turn has the potential to allow retinal specialists to quickly and accurately diagnose, target and cauterize the abnormal feeder vessels in real time within a single patient visit, and to immediately confirm the treatment.

The following is a picture of the OPTTX System:



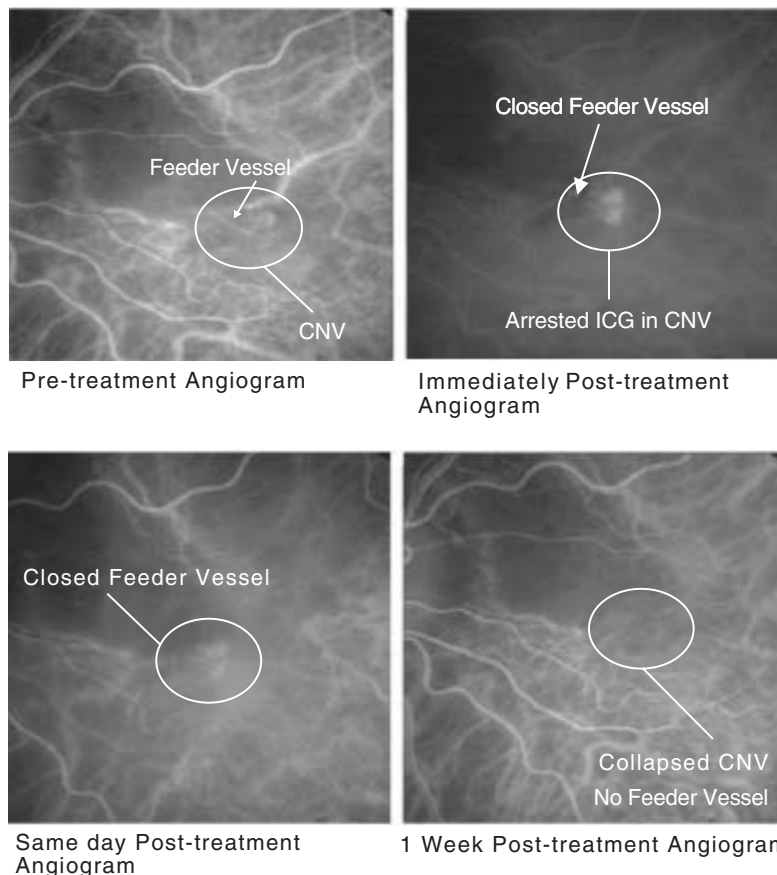
The OPTTX procedure begins with the administration of ICG intravenously through the patient's forearm or back of the hand. The OPTTX System is then used to generate very high-speed images of the vascular landscape of the eye, including the feeder vessels and the CNV. Once the retinal specialist has identified the location of the feeder vessels and precisely aligned the treatment laser, additional ICG is administered to the patient. The retinal specialist then uses a laser emitting infrared energy at a wavelength of 806 nm to cauterize the feeder vessels. The ICG preferentially absorbs the energy at this wavelength, and although the ICG plays no pharmacological role in the procedure, this preferential absorption more effectively cauterizes the feeder vessels by enhancing energy absorption within the feeder vessel. This

may allow for less energy and fewer energy bursts to be used to close the feeder vessel than are otherwise used in feeder vessel therapy. This, in turn, may reduce the potential damage to the surrounding tissue. From a patient's perspective, the cauterization procedure is quick and painless; the patient neither sees nor feels the cauterization laser. Once the treatment procedure has been performed, additional ICG is administered to perform another angiogram which the retinal specialists can then immediately use to verify the effectiveness of the treatment in closing the feeder vessels. Management expects that patients will undergo an average of four treatments. Depending upon the particular patient, additional or fewer follow-up procedures may be required.

The OPTTX System is a single device that is intended to allow retinal specialists to quickly and accurately diagnose, target and cauterize abnormal feeder vessels in real time within a single patient visit, and to immediately confirm the treatment. Management believes that the OPTTX System therefore potentially offers retinal specialists and Wet AMD patients the following clinical and procedural advantages:

- The OPTTX System allows feeder vessels to be identified by the use of very high-speed ICG angiography and also aligned for treatment with the treatment laser, all in real time. This real-time identification eliminates the inaccuracy of aim that is inherent in feeder vessel therapy as it is currently practiced, which uses separate diagnostic and treatment devices.
- The ICG used in the OPTTX treatment procedure preferentially absorbs the energy of the treatment laser, which is then released as heat and cauterizes the abnormal feeder vessel from the inside out. As a result, the laser energy is more accurately targeted and less energy is needed to close the feeder vessel, resulting in less damage to the surrounding retinal tissue.
- The OPTTX System allows for the immediate verification of feeder vessel closure in the same patient visit.
- The OPTTX System reduces procedure times and increases potential patient throughput by retinal specialists by enabling diagnosis, treatment and immediate verification of treatment with a single device.

The following high speed ICG angiograms taken by the first generation OPTTX System demonstrate feeder vessel therapy performed with the OPTTX System in the clinical setting:



Clinical Studies and Trials

Two clinical studies have been conducted with the first generation OPTTX System in order to demonstrate the effectiveness of feeder vessel therapy using the OPTTX System. The first study conducted was designed to demonstrate proof of principle of the combined diagnosis/treatment system design for performing photocoagulation in the presence of ICG in the clinical setting, as well as determination of the minimum laser energy needed to close CNV feeder vessels. The study involved eight Wet AMD patients requiring treatment of CNV, but for whom other treatment was not appropriate or available. As reported by the clinical investigator, the results of the study showed that the feeder vessels were successfully closed in 85% of the cases where the feeder vessels were 150 microns in diameter or less.

A second study was conducted in 2003 and 2004 at Manhattan Ear Eye and Throat Hospital (“MEETH”) in New York. This study was a prospective, single center, open label study sponsored by Novadaq. It involved 12 Wet AMD patients with all sub-type classifications of the disease that required treatment of their CNV, but for whom other treatment was not appropriate or available. These patients received feeder vessel therapy for up to three months of treatment using the first generation OPTTX System. This study provided valuable information related to the effectiveness of using the combined diagnosis/treatment system and demonstrated similar visual acuity outcomes as conventional feeder vessel therapy, as published in peer-reviewed literature. Vision remained stable (i.e., less than three lines of vision lost) in all but three of the 11 patients for whom verified data was obtained. Three of 11 patients registered an improvement in visual acuity as measured by change in the number of letters on the ETDRS chart. The treatment follow-up period for the MEETH study, however, was too short to make meaningful comparisons to approved therapies, and the patient sample size was too small to draw conclusions. These data were used to further optimize the device and to design a prospective trial in a larger, more diverse patient population.

A third prospective clinical trial is currently under way in Brescia, Italy with Giovanni Staurenghi, MD, acting as principal investigator. The primary objective is to assess the safety and effectiveness of feeder vessel therapy using the OPTTX System. This is a single center, open label randomized trial with the combined diagnosis/treatment system to compare effectiveness of feeder vessel therapy in the presence of ICG to feeder vessel therapy without ICG in each case using an optimized first generation OPTTX System. The protocol includes all Wet AMD patients that have a visible feeder vessel. The trial will enroll 40 patients, 20 of whom will receive feeder vessel therapy with the OPTTX System in the presence of ICG and 20 of whom will receive feeder vessel therapy with the OPTTX System but without the use of additional ICG during the treatment procedure. The primary endpoint of this study is to demonstrate equal or greater than a 50% reduction in the amount of laser energy required to close feeder vessels in the ICG arm versus the non-ICG arm. The twelve-month trial involves a six-month treatment period, with six months of follow-up, and it is currently expected that this trial will be complete in the second quarter of 2006.

As of the date hereof, 35 of the 40 patients have been enrolled in the trial, of which 33 have been treated. To date nine patients have completed the twelve-month study, and six patients have finished their six-month visit, completing their treatment period. Another 12 patients have completed at least their eight-week visit following the start of the treatment period. The preliminary data from this trial has generated results similar to the peer-reviewed published literature for conventional feeder vessel therapy.

The preliminary analysis of data generated by the MEETH study and the on-going trial in Brescia indicate that the visual outcomes of feeder vessel therapy performed using the OPTTX System are comparable to the peer-reviewed literature for conventional feeder vessel therapy. Management believes that these results, although preliminary and not yet statistically significant, are promising and warrant that further device optimization be performed and that additional clinical studies be conducted to build the body of evidence for the safety and effectiveness of feeder vessel therapy with the OPTTX System in all sub-types of wet AMD patients.

The Company has recently completed the design of the second generation OPTTX System, and is currently planning to initiate a pilot study in Canada with the second generation device. The Company expects that this pilot study will be followed in late 2005 by a multi-site clinical trial of the OPTTX System for the purpose of generating statistically significant results for effectiveness and safety to support the commercialization of the OPTTX System and, if necessary, the submissions for regulatory approvals and/or clearances.

Sales and Marketing

The SPY System

The Company currently has the necessary regulatory clearances or approvals to market the SPY System in each of the United States, Canada, Japan and the European Union, and Novadaq's sales and marketing efforts are currently focused on the commercialization of the SPY System in Japan and the United States. It is expected that the United States will be the Company's largest market for the SPY System, as approximately 50% of all CABG procedures are performed in the United States. The European Union is expected to be the second largest market for the SPY System, as members of the European Union perform approximately 30% of all CABG procedures.

United States

On January 19, 2005, the SPY System received regulatory clearance from the FDA in the United States. The FDA cleared the SPY System for use in intra-operative visual assessment of the coronary vasculature and bypass grafts during CABG surgery. This clearance for use of the SPY System in CABG surgery requires the use of both the Company's imaging device and the consumable SPY Kit for each imaging procedure. The Company is in the process of a strategic multi-stage commercial launch of the SPY System in the United States. Management intends to use the information gathered from the first stage of this strategic market launch to choose a distribution strategy for the SPY System. The Company has outsourced the manufacture, installation and the support and servicing of the SPY intra-operative imaging device, as well as distribution of the consumable SPY Kits, but currently sells the SPY System on a procedure fee basis directly to hospitals. The Company currently expects that as it formulates its broader United States commercialization strategy it will partner with an established device distributor.

There are approximately 1,000 centers in the United States that are expected to perform approximately 400,000 CABG surgeries in 2005. Management considers approximately 100 of these centers to be "high volume" centers performing between approximately 800 to 2,000 CABG surgeries per year. In addition, there are an approximately 200 "medium volume" centers that perform approximately 400 to 799 CABG surgeries per year. Management intends to initially focus its United States commercialization efforts on these 300 high and medium volume CABG centers.

To date, Novadaq has placed or made arrangements to place the SPY System at Stanford University Medical Center in Palo Alto, California, Medical City Hospital in Dallas, Texas, the Cleveland Clinic in Cleveland, Ohio, Lennox Hill Hospital in New York, New York, and the Methodist Hospital DeBakey Heart Center in Houston, Texas. Management believes that in addition to generating revenue, a positive endorsement from surgeons in these initial sites would accelerate the routine use of the SPY System in CABG surgery, and therefore potentially encourage the wider scale adoption of the SPY System. Management also expects that these initial sites in the United States will provide the Company with valuable information on determining the most effective and efficient sales channel for the SPY System, both in the broader United States and worldwide cardiac surgery markets. The Company expects to use some of the information derived from these initial placements to establish procedural standardization, training models, sales models, promotional materials and messages, public and professional relations initiatives, publication and presentation strategies and reimbursement validation. Novadaq believes that educating surgeon customers and the supporting operating room staff to use the SPY System will be the key to successful account penetration and the establishment of the SPY System as a "standard of care".

The Company is pursuing a procedure-based pricing model for the SPY System in the United States that will not require hospitals to make a large capital outlay in order to adopt the SPY System. The Company currently intends to place the SPY intra-operative imaging device in hospitals and expects an end-user fee, ranging from approximately US\$475 to US\$750, for each procedure performed using the SPY System.

Coronary artery bypass graft procedures are currently considered to be one of the most expensive surgeries in the United States, with costs ranging from approximately US\$20,000 to approximately US\$45,000. CABG is also highly reimbursed, and results in a profit for hospitals unless complications occur during CABG surgery, particularly those requiring repeat surgery or other repeat procedures. Repeat procedures to correct non-functional grafts within the same hospitalization period may be costly for the hospital, given that insurance providers in the United States typically only reimburse the hospital a fixed amount for a particular episode of care. As a result, management believes there is a significant market opportunity for the SPY System, which allows cardiac surgeons to quickly, safely and reliably visually assess bypass graft quality and function during the course of CABG surgery, and to therefore address any bypass graft concerns while the patient is still in the operating room.

Procedures conducted in the United States using the SPY System are currently being billed under existing global CABG reimbursement codes, and professional fees are being billed under existing angiography and angiography interpretation reimbursement codes.

Japan

Japan is a smaller CABG market, relative to the United States and Europe, and is characterized by a large number of centers performing relatively low volumes of procedures. There are currently approximately 400 medical centers in Japan performing a total of approximately 40,000 CABG procedures a year. Despite its smaller size, management believes that Japan represents a significant market opportunity for the Company, as, unlike other markets, x-ray angiography is an accepted post-CABG surgery standard of care in Japan. In this regard, management believes that a demand already exists in Japan for a device such as the SPY System, as Japanese surgeons are familiar with the potential complications and difficulties associated with post-operative x-ray angiography. Peer reviewed publications from Japan have reported that the SPY System provides images and outcomes similar to conventional x-ray angiography, with the added advantage of being able to use the SPY System within the operating room prior to patient closure where immediate revisions can be made, if necessary.

Novadaq is pursuing a combined device and procedure-based pricing model in Japan, which involves an initial sale of the SPY intra-operative imaging device, as well as subsequent sales of the consumable custom sterile drapes that are used to perform the SPY System procedure. The Company began commercialization of the SPY System in Japan in October 2003 by placing five devices at select revenue-generating centers. To date, a total of 16 SPY devices have been sold in Japan. The Company is continuing to focus on increasing sales of the SPY System in Japan through the establishment of a strong distribution network. The Company's Japanese regional distributor, Vital Corporation, has recently established a relationship with a number of other regional distributors to form a broader distribution network for the SPY System, and collectively these distributors have partnered with Mitsubishi Corporation, which will broaden and strengthen the distributors' network.

European Union

Members of the European Union perform approximately 30% of all CABG procedures performed throughout the world. There are currently approximately 560 medical centers in Europe performing a total of approximately 220,000 CABG procedures a year. Strong clinical and physician networks exist between Europe and the United States, and therefore management expects that marketing efforts in the United States will assist in the penetration of the European market. Given the number of countries that comprise the European market, and the different economic factors that apply in each of these countries, the Company has focused its European efforts to date on developing four opinion-leading sites for the SPY System in Europe at The University Hospital in Zurich, Switzerland, The John Radcliffe Hospital in Oxford, England, the Azienda Ospedaliera San Giovanni Battista Hospital in Turin, Italy and The University of Chieti in Chieti, Italy. Since 2001, management believes that more than 1,200 SPY System procedures have been performed within these centers in Europe.

The Company currently intends to increase commercialization activity in Europe in 2006, following the SPY System's United States market launch. It is anticipated that the pricing models to be employed in Europe for the SPY System will vary from country to country and will include a combination of an initial fee for the SPY intra-operative imaging device plus consumable SPY kits and per procedure models. The pricing model of each country will likely be dependant in part on the reimbursement policies of each individual country.

Canada

The Canadian market is the smallest of the four markets currently targeted for commercialization of the SPY System with approximately 38 cardiac centers in Canada performing approximately 19,000 CABG surgeries a year. To date the Company has sold one revenue-generating SPY System to Sunnybrook and Women's College Health Science Centre in Toronto, Ontario. Since the establishment of this site in August 2003, the surgeons at Sunnybrook and Women's College Health Science Centre have used the SPY System in over 350 CABG procedures to evaluate over 900 bypass grafts.

The Company currently expects that it will increase its commercialization activity in Canada once it has completed the SPY System's United States market launch.

The OPTTX System

Novadaq is continuing to develop the OPTTX System, and currently does not have the regulatory approvals or clearances necessary to market the OPTTX System in the United States, European Union, Canada or Japan. The Company expects that if and when it receives these approvals/clearances, it will primarily target the two largest Wet AMD markets, the United States and the European Union.

If the OPTTX System receives the necessary regulatory clearances and approvals, the Company's marketing goal will be to establish the OPTTX System as the first line of both diagnosing and treating all sub-types and lesion types of Wet AMD, whether alone or in combination with other Wet AMD treatments.

Novadaq currently expects that if the OPTTX System receives the necessary regulatory clearances or approvals in the United States, the Company will introduce a fee for procedure based pricing strategy in the United States for the OPTTX System, as this pricing model is common in ophthalmology. In this model, the Company will place the OPTTX System into various clinics and hospitals, while maintaining ownership, and will charge a fee for each procedure performed using the OPTTX System. Reimbursement codes for ophthalmic ICG angiography and photocoagulation are already in existence in the United States. As with the SPY System, other economic models and marketing strategies will likely be established for other countries, and such models will be dependent on the economic factors prevalent in each country.

Operations and Production

Research and Development

The Company's research and development strategy is focused on: (i) expanding the use of the SPY System and the OPTTX System into new diagnostic and therapeutic applications, thereby increasing their potential market size, and (ii) leveraging the Company's core technology platform to develop next generation products in existing and new markets.

The Company intends to continue to examine the potential of using its existing SPY imaging device in other diagnostic and therapeutic applications. For example, the Company is currently collaborating with the University of Rochester in Rochester, New York to develop clinical support for the use of the SPY System in prostate surgery. Other possible targeted diagnostic and therapeutic procedures include but are not limited to, organ transplant, peripheral and neurovascular surgery, and ear, nose and throat surgery. The Company further intends to continue to examine the potential of using the OPTTX System as a diagnosis and treatment system for other vascular diseases affecting the back of the eye such as diabetic retinopathy and retinal angiomatous proliferation.

The Company also intends to develop next generation devices using its current core technology platform in order to establish a presence in new diagnostic and therapeutic applications, as well as to expand its potential market share within its currently targeted markets. For example, the Company intends to develop an endoscopic intra-operative imaging system that has the potential to be used both as a standard quality measure in a broad array of current endoscopic procedures, as well as enable or promote the adoption of new surgical techniques and technologies such as robotic procedures, thoroscopic CABG, minimally invasive CABG and other minimally invasive cardiovascular, peripheral vascular and neurovascular applications whose use to date has been limited by an inability to visualize the area of interest. The Company also intends to modify the OPTTX System to operate with variable/multiple wavelengths, which may enable the diagnosis of other back of the eye conditions, such as dry AMD, enabling improved diagnosis and disease management.

In addition, the Company also intends to continue to develop software technologies in order to continue to advance the diagnostic and treatment capabilities of its devices, while also improving connectivity between the Company's devices and the hospital or clinic to improve patient data capture and archiving, and thereby support mandated initiatives to capture medical records in electronic form.

Suppliers and Manufacturing

The Company relies upon suppliers for the manufacture of the SPY intra-operative imaging device and the imaging and treatment device used in the OPTTX System, the ICG that is used by each of the SPY System and the OPTTX System and the custom sterile drapes that form part of the SPY Kit, as well as for the development and support of the related software used to operate the SPY System and the OPTTX System.

Novadaq currently uses a single supplier to manufacture the SPY intra-operative imaging device, as well as the imaging and treatment device used in the OPTTX System, and is currently in the process of qualifying a second supplier. Novadaq believes that in order to manufacture these devices internally, the Company would be required to invest a substantial amount of capital to establish manufacturing facilities that meet prescribed regulatory standards. Management believes that establishing such facilities would not add significant value to the Company, since management believes that there are numerous alternative contract manufacturers who are capable of manufacturing these devices according to the Company's requirements. Accordingly, Novadaq currently has no plans to establish manufacturing facilities for the commercial production of the SPY intra-operative imaging device or the imaging and treatment device used in the OPTTX System.

Akorn, Inc. is currently the only supplier that is approved by the FDA to manufacture and sell ICG in the United States, and as such, the Company currently obtains its ICG supply from this single supplier. Management believes, however, that other potential suppliers are contemplating the production of an alternate generic source of ICG for use in the United States, and the Company could in the future also consider developing its own source of generic ICG. ICG has a shelf-life of approximately two years, and as such, the Company's current inventory management policy is to maintain an approximately 6-month supply of ICG.

The Company currently relies on a single supplier to supply the custom sterile drapes that comprise part of the SPY Kit. The Company evaluates this supplier on an annual basis. Due to the relatively low cost of the custom drapes and their extended shelf-life, the Company currently maintains a minimum of 12 months of inventory of sterile drapes. Management believes that a number of alternate suppliers could also supply these custom sterile drapes if necessary.

Employees

The Company currently employs approximately 20 employees, including five members of senior management. None of the Company's employees belong to or are represented by a labour union. Management believes that its relationship with employees is good, and the Company has never experienced a work stoppage or other labour disturbance.

Regulatory Matters

The SPY System and the OPTTX System are generally classified as medical devices for regulatory purposes, and the ICG used with the systems may be regulated as both a medical device and a drug. Accordingly, the Company is subject to extensive regulations governing the research, development, manufacture, promotion and marketing of these systems.

United States

Devices

In the United States medical devices are regulated by the FDA. The FDA classifies medical devices into one of three regulatory classes, referred to as Class I, Class II or Class III. A higher classification generally indicates a greater potential risk to the patient, and therefore, the FDA imposes a greater level of regulatory control over such products. As the risk level increases, additional data is required to demonstrate the safety and effectiveness of the device.

There are two review procedures by which medical devices can receive FDA clearance or approval for marketing in the United States. A pre-market notification, or 510(k) notification, must be submitted for certain Class I devices as well as for the majority of Class II and certain Class III devices. The 510(k) notification must establish that the medical device, in comparison with an existing legally marketed product (a "predicate device"): (i) is substantially equivalent, (ii) has the same intended use, and (iii) is as safe and effective and does not raise different questions of safety or effectiveness. Marketing a medical device that is subject to a 510(k) notification may begin upon the FDA issuing a clearance letter finding substantial equivalence to the predicate device. The FDA issued such a clearance letter with respect to the SPY System on January 19, 2005 on the basis of the SPY System being substantially equivalent, from a regulatory perspective, to two existing angiography devices. The FDA cleared the SPY System for use in intra-operative visual assessment of the coronary vasculature and bypass grafts during CABG surgery. Accordingly, Novadaq may market the SPY System in the United States for this indication without any further regulatory review by the FDA.

FDA approval of a Pre-Market Approval (PMA) application is required for most Class III devices and for those medical devices for which the manufacturer is unable to establish substantial equivalence to an existing legally

marketed product. A PMA application is much more detailed than a pre-market notification and must include clinical data demonstrating that the medical device is safe and effective. Typically before conducting a clinical study to generate the required safety and efficacy data, the developer must file an Investigational Device Exemption (IDE) application with the FDA. The IDE application must include, among other things, the pre-clinical data and any clinical data that justify the proposed investigation.

The clinical development program required to support a PMA application initially involves the conduct of studies testing the device in a small number of patients to determine the safety of the device. If the studies successfully conclude that the device is safe, an expanded patient population is studied at multiple sites to establish longer-term safety and effectiveness. The pre-clinical (where necessary) and clinical studies are subject to the Good Laboratory Practice and Good Clinical Practice regulations and policies of the FDA and the results are detailed in the PMA application. Once a PMA application has been submitted, the FDA has a statutory 180-day review cycle, though in practice a PMA application often requires significantly more time before approval. The FDA's PMA approval review process generally takes one to three years after filing, but may take longer. Before granting approval to market a medical device, the FDA may convene a medical advisory board review, which can add to the review time. In addition, prior to approval, the FDA typically conducts a facility inspection to verify that the manufacturing systems for the medical device conform to the FDA's Quality System Regulation that establishes "Good Manufacturing Practice", or "GMP", requirements. If it is determined that a PMA application is required for the OPTTX System, management anticipates that the costs of the prospective PMA trials and the subsequent PMA application will be approximately US\$3,250,000 to US\$5,250,000.

Management currently intends to initiate discussions with the FDA with respect to the appropriate regulatory pathway for the OPTTX System in the second half of this year. If it is determined that a PMA is required for the OPTTX System, management anticipates that the Company would submit a PMA application in approximately two to three years, and would expect to receive a regulatory decision approximately one year after filing. If, however, the FDA accepts and clears a 510(k) notification for the OPTTX System, then management anticipates that a notification could be made in the second half of this year, and that a regulatory decision would be reached within three to six months of the filing.

Management currently expects that if and when market clearance/approval has been gained for the OPTTX System for Wet AMD, additional clinical studies would be initiated to support further regulatory submissions to broaden the indications for use of the OPTTX System to include other ophthalmic indications, including but not limited to, diabetic retinopathy.

The OPTTX System is a combination product, in that it entails the use of a device and an imaging agent. As a result, the FDA may take the position that a supplemental new drug application (a "SNDA") is required for the OPTTX System. A SNDA would be required to include clinical data demonstrating the safety and efficacy of ICG for use with the OPTTX System. In such event the Company would need to work closely with the FDA to determine what types of studies would be required, but management would expect any such trials to be very expensive and to significantly delay ultimate market introduction of the OPTTX System.

Post-Marketing Compliance

In the United States, the FDA requires manufacturers of both drugs and devices to conform to the FDA's GMP regulations both as a condition of product approval or clearance and on a continuing basis thereafter. Manufacturing facilities are subject to periodic inspections by the FDA to ensure compliance. In addition, the FDA conducts ongoing monitoring of the marketing, labeling and advertising of the approved product. For example, the FDA actively enforces regulations prohibiting the marketing of products for unapproved uses. Adverse experiences with the product (if any) must also be reported to the FDA. In addition, the Company must comply with federal and state health care anti-kickback laws and other health care fraud and abuse laws that affect the marketing of devices and pharmaceuticals. Failure to comply with applicable laws and regulations could subject the Company to administrative or judicial enforcement actions including but not limited to product seizures, recalls, injunctions, civil penalties, criminal prosecution, refusals to approve new products or withdrawal of existing approvals, as well as increased product liability exposure, any of which could have a material adverse effect on the Company's business, financial condition or results of operations.

Europe

Similar to the United States, medical devices are classified depending upon the risk the medical device presents to the patient. Class IIa, IIb and Class III medical devices require quality systems certification by a third party assessment agency known as a Notified Body. Medical devices marketed in European Union countries must carry CE Marking under the applicable medical device directive. The following three European directives apply to medical device manufacturers:

- The Medical Devices Directive (93/42/EEC) (“MDD”) applies to all general medical devices not covered by the Active Implantable Medical Devices Directive or the In Vitro Diagnostics Directive;
- The Active Implantable Medical Devices Directive (90/385/EEC) (“AIMDD”) applies to all active devices and related accessories intended to be permanently implanted in humans; and
- The In Vitro Diagnostics Directive (98/79/EEC) (“IVDD”) applies to all devices and kits used away from the patient to make a diagnosis of patient medical conditions.

Each of the medical device directives impose essential requirements on the applicable medical devices. The CE Mark represents compliance with a specific device directive and can be achieved through self-assessment or a certification body depending upon the device classification. The manufacturer of medical devices must prepare a technical file with evidence of compliance to the applicable directive and standards. The MDD, which applies to the SPY System and the OPTTX System, imposes fourteen essential requirements, including technical documentation, risk assessment and a registered quality system. The CE Mark was achieved for the SPY System in September 2001. The Notified Body responsible for the issuance of the CE Mark was TÜV Rheinland Product Safety GmbH which continues to conduct the required annual surveillance audits. Novadaq intends to seek a CE Mark for the OPTTX System in late 2005, and will use TÜV Rheinland Product Safety GmbH as the certified body.

Canada

In Canada, medical devices are regulated by Health Canada and are classified into one of four regulatory classes, using a similar system of classification as that in Europe, depending upon the risk the medical device presents to the patient. Except for Class I devices, all medical devices are required to have a device license before they can be sold within Canada. As the risk level increases, additional data is required to demonstrate the safety and effectiveness of the medical device before a medical device license is issued by Health Canada. As of January 2003, manufacturers of medical devices have been required to meet the requirements of Health Canada’s Canadian Medical Devices Conformity Assessment System (“CMDCAS”) and submit to Health Canada valid ISO 13488 (Class II) and ISO 13485 (Class III and IV) quality management system certificates issued to the manufacturer by third-party organizations recognized by Health Canada and accredited by the Standards Council of Canada to issue such certificates to Health Canada. Novadaq is currently on an annual surveillance audit schedule with TUV Rheinland, a CMDCAS accredited registrar, which is the Notified Body responsible for the issuance of the CE Mark on the product. Novadaq is an ISO 13485:1996 certified Company. The Company obtained a Class III device license for its SPY System in September of 2001. Novadaq is currently in the process of preparing a medical device license application for the OPTTX System in Canada, and intends to apply for a medical device license in late 2005.

Japan

In Japan, the sale of medical devices is regulated by the Ministry of Health, Labour and Welfare (“MHLW”). The Pharmaceutical Affairs Law (“PAL”) is the primary governing law for medical devices in Japan. Before marketing medical devices in Japan, a kyoka (license) and/or a shonin (approval) must be obtained from the MHLW. A kyoka is required for each manufacturing plant and representative office in Japan and grants the holder the right to market a medical device in Japan.

If a medical device constitutes only a minor change to an already approved medical device, and has no effect on the safety and effectiveness of the medical device, it is not necessary to obtain a shonin, as notification is sufficient. If a medical device is comparable to other products already approved for sale in Japan a shonin can be obtained without any clinical trials.

If a new medical device is not comparable to other products already approved in Japan, clinical trials are required. Similarly, if a modification has been made to an existing medical device which can potentially impact its safety or effectiveness, clinical trials are also required. Clinical trials must comply with Good Clinical Practice standards, and

must be followed by standard Post Marketing Assessment reporting and a follow-up program. New medical devices that are subject to clinical trials must undergo thorough safety examinations and demonstrate medical effectiveness before being granted a shonin. In addition, PAL regulations impose additional requirements for companies that manufacture or import and sell medical devices, ranging from building and structural standards to personnel education and work experience.

The SPY System obtained a shonin in August of 2003 and was successfully introduced into the Japanese market in October of 2003.

Intellectual Property

Overview

The Company believes that the protection of its intellectual property is an essential element of its business. The Company intends to continue its technology investment on the development of the Company's intellectual property portfolio. Applications to broaden the Company's patent protections are being pursued in the primary cardiovascular and ophthalmic areas, as well as the organ transplant, neurovascular and neurosurgical areas. Wherever possible, the Company pursues a global intellectual property strategy, registering for patent protection in all jurisdictions where it intends to carry on business, including the United States, Canada, Japan, Europe, Australia and China. In addition to developing its own intellectual property portfolio, the Company has licensed key intellectual property from third parties through exclusive licenses.

The Company also relies upon trade secrets, know how and other proprietary, confidential information for the protection of its technology. The Company requires all employees, consultants, scientific advisors and other contractors to enter into confidentiality agreements to protect any disclosure of such proprietary information.

NOVADAQ and IMAGING IS EVERYTHING are registered trademarks of the Company in Canada. The mark VISAGENT has been allowed in Canada. The Company has applied for registration of the trademark OPTTX in Canada. The SPY trademark has been allowed in the United States and will proceed to registration. Other marks pending registration in the United States are NOVADAQ, VISAGENT and IMAGING IS EVERYTHING.

SPY Technology

The NRC Technology licensed to the Company under the NRC Agreement (in each case as defined below) is the subject of a provisional patent application filed in the United States on September 24, 1999. Applications claiming priority to the US provisional application have been filed and remain pending in Australia, Canada, China, Europe, Hong Kong, India, Japan, Mexico and Korea. By way of amendment to the NRC Agreement, the Company has obtained the sole right to file, prosecute and maintain patent applications for the patent rights to the NRC Technology.

Claims in the U.S. patent application for the NRC Technology have been found allowable and a Notice of Allowance was received from the United States Patent and Trademark Office in March 2005. The issue fee has been paid and this application may now proceed to issuance. A continuation application from this allowed U.S. patent application was filed with the United States Patent and Trademark office in April 2005 and remains pending.

OPTTX Technology

The JH Technology, described below, includes a United States patent entitled "Method and Apparatus to Identify and Treat Neovascular Membranes in the Eye" (the "JH Method and Apparatus") and a patent entitled "Methods and Apparatus for Improved Visualization of Choroidal Blood Flow and Aberrant Structures in the Eye using Fluorescent Dye Angiography" (the "JH Process").

The JH Method and Apparatus is the subject matter of patents issued in the United States, Switzerland/Lichtenstein, Great Britain, Italy, Spain and Germany. The JH Process is the subject of patents issued in the United States, Portugal, Spain, Denmark, Germany, Austria, Hong Kong and Japan. The JH Technology forms the basis for the OPTTX System and procedure. Title to all such patents and patent applications resides in The Johns Hopkins University.

The Company has applied for a patent entitled "Combined Photocoagulation and Photodynamic Therapy" which is currently pending in the United States, Europe and Canada. The Company has also applied for a patent entitled "System and Method for Visualizing Fluid Flow Through Vessels", which is currently pending in Canada, the United

States, Europe, Japan, Australia, Brazil, China, India and South Korea. These applications are intended to supplement the Company's pre-existing intellectual property protection in the OPTTX System and procedure technologies.

Other Applications

The Company believes that its intra-operative visualization technologies have the potential to be developed into products for a variety of vascular applications such as cardiovascular, organ transplant, neurovascular surgery and peripheral vascular surgery. The Company currently intends to secure intellectual property rights in new applications of its technology before introducing its technology into new markets. Additional regulatory submissions will be necessary to secure appropriate regulatory approval or clearance for new indications.

Licence Agreements

Novadaq has entered into key license agreements with the National Research Council of Canada for intellectual property rights that form the basis of the SPY System, with The Johns Hopkins University for intellectual property rights that form the basis of the OPTTX System and with the University of Maryland, Baltimore County for intellectual property rights for the manufacture of ICG.

National Research Council of Canada

Under a license agreement with the National Research Council of Canada ("NRC") dated June 30, 2000, as amended to date, the Company acquired the worldwide exclusive license to use and sell products derived from certain intellectual property of NRC relating to a method and apparatus to perform fluorescence angiography (collectively the "NRC Technology"). The NRC Technology forms the basis of the SPY System. Pursuant to this license, the Company has agreed to pay an ongoing royalty to NRC of \$1,500 for each product sold by the Company that incorporates the NRC Technology. The registered intellectual property licensed under the NRC Agreement is currently limited to patent applications. By way of amendment to the NRC Agreement, the Company has obtained the sole right to file, prosecute and maintain patent applications for the patent rights to the NRC Technology. The license will terminate on the expiration of the patents to the NRC Technology. NRC has the right to terminate or modify the license for the NRC Technology if the Company is not diligently exploiting the licensed rights thereunder.

The Johns Hopkins University

Under a license agreement with The Johns Hopkins University (Applied Physics Laboratory) dated October 8, 2001, as amended to date, the Company acquired the worldwide (except the United States) exclusive license to use and sell products and services that incorporate the inventions and technology claimed in the foreign patents, if any, and foreign patent applications, if any, that correspond to certain United States patents entitled "Method and Apparatus to Identify and Treat Neovascular Membranes in the Eye" and "Method and Apparatus for Improved Visualization of Choroidal Blood Flow and Aberrant Structures in the Eye Using Fluorescent Dye Angiography" (the "JH Technology"). The JH Technology forms the basis for the OPTTX System.

The license fee for this license totals US\$4,400,000, which is payable upon certain past and future milestones including revenue milestones. As at December 31, 2004, the Company had future commitments to The Johns Hopkins University (Applied Physics Laboratory) under this license of US\$1,450,000. In addition to the license fee, the Company is obligated to pay ongoing royalties on the sales of products and services ranging from 1.5% to 7.0% of gross sales revenues, depending in part on annual sales volume. The Company may be required to pay minimum royalty payments, depending on the amount of ongoing royalties paid in the year prior to the date that minimum royalty payments are due. This license will terminate in each country on the date of the expiration of the last licensed patent in that country.

Subsequently, under a license agreement with The Johns Hopkins University (Applied Physics Laboratory) dated September 30, 2002, as amended to date, the Company acquired the exclusive license to use and sell products and services in the United States that incorporate the inventions and technology claimed in the United States patents identified above. The license fee for this license totals US\$4,370,000, consisting of upfront and milestone payments. As at December 31, 2004, the Company had future commitments to The Johns Hopkins University (Applied Physics Laboratory) under this license of US\$2,995,000. In addition to the license fee, the Company is obligated to pay ongoing royalties on the sales of products and services of either 3% or 4.5% of gross sales revenues, depending on the type of regulatory approval obtained from the FDA. The Company may be required to pay minimum royalty payments, depending on the amount of ongoing royalties paid in the year prior to the date that minimum royalty payments are due.

The license will terminate three years after the date of expiration of the last to expire patent licensed in the United States. The Company is obligated to use best commercial efforts to develop and commercialize the products and services underlying the technology.

University of Maryland, Baltimore County

The Company has also entered into a license agreement (the “Maryland License”) with the University of Maryland, Baltimore County (“University of Maryland”) effective as of August 17, 2001 in which the Company obtained a worldwide exclusive license to use the process for synthesizing ICG developed at the University of Maryland to make, use and sell ICG with all possible applications utilizing Novadaq’s devices and sublicense others to do the same. Pursuant to the Maryland License, the Company has agreed to pay certain fees to the University of Maryland upon the occurrence of certain future events. The University of Maryland may terminate the Maryland License if the Company is in default of its obligations under the Maryland License. The Maryland License expires on August 17, 2021 but may be extended for two-year terms at the Company’s request. Upon termination of the Maryland License, the Company must cease using the licensed process for synthesizing ICG.

Competition

The medical device market is highly competitive and the Company faces competition from other medical device manufacturers as well as pharmaceutical and biotechnology companies. Some of the Company’s competitors have greater clinical, regulatory and marketing resources and experience than Novadaq. These companies may have a competitive advantage over Novadaq due to their size, cash flow and healthcare and institutional experience. Management believes that the key factors affecting the success of the SPY System and the OPTTX System are likely to be their effectiveness, safety profile, price and ease of use, as well as the Company’s intellectual property portfolio.

Although the CABG market is a relatively large market with many participants, management believes that the market for intra-operative assessment and validation of the functionality of native coronary vessels and bypass grafts during CABG procedures is relatively underdeveloped. Management believes that Novadaq’s primary competitors will be manufacturers of x-ray angiography devices such as General Electric, Philips, Siemens and Toshiba, as well as manufacturers of flow monitoring probes (Transonics and Medi-Stim).

The Wet AMD market is primarily comprised of companies developing either drug-based therapies or laser based treatments. The Company believes that these competitors include Eyetech Pharmaceuticals Inc., Genentech Inc., Alcon Laboratories Inc., Genaera Corporation, QLT Inc., SurModics Inc., InnoRx Inc. and Visient Therapeutics Inc. The Company believes that if the OPTTX System receives the necessary regulatory approvals and clearances, the OPTTX System will compete with the treatments offered by these companies on the basis of its expected ease of use, safety and effectiveness. Management also expects that because of its imaging capabilities and combined diagnosis and treatment capabilities, the OPTTX System could potentially be used as a treatment in conjunction with other accepted treatments for Wet AMD.

SELECTED FINANCIAL INFORMATION

The following tables set forth selected financial information for the periods indicated. The selected financial information of the Company as at December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 has been derived from the Company's audited financial statements appearing elsewhere in this prospectus. The selected financial information as at March 31, 2005 and for the three months ended March 31, 2005 and 2004 has been derived from the Company's unaudited financial statements appearing elsewhere in this prospectus. The selected balance sheet data as at December 31, 2002 has been derived from the Company's balance sheet as at December 31, 2002 which is not included in this prospectus. The selected financial information should be read in conjunction with the financial statements of the Company and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	Three Months Ended March 31,		Years Ended December 31		
	2005	2004	2004	2003	2002
	(in US dollars)		(in US dollars)		
Statement of Loss Data					
Revenue	155,418	23,947	1,147,274	332,626	407,079
Cost of sales	36,300	17,152	318,543	254,474	186,668
Gross profit	119,118	6,795	828,731	78,152	220,411
Operating expenses					
Sales and marketing	101,732	47,223	247,892	208,162	417,007
Research and development	718,650	355,799	1,277,386	1,473,733	1,549,343
General and administration	433,571	388,030	1,728,321	1,156,428	358,377
Depreciation	8,266	16,914	60,941	106,678	189,163
Amortization	105,283	100,017	408,844	418,868	2,205,670
Write-down of property, plant and equipment	—	—	—	—	168,681
Write-down of acquired technology	—	—	—	—	4,040,000
Loss (gain) on foreign exchange	7,475	(3,657)	(65,307)	(55,436)	9,923
Loss before the following	(1,255,859)	(897,531)	(2,829,346)	(3,230,281)	(8,717,753)
Interest income	34,321	—	56,481	28,351	45,482
Net loss for the period	(1,221,538)	(897,531)	(2,772,865)	(3,201,930)	(8,672,271)
Basic and fully diluted loss per share	(0.08)	(0.05)	(0.16)	(0.18)	(0.52)
Pro forma basic and diluted loss per share ⁽¹⁾ . . .	(●)	(●)	●	●	●

	March 31, 2005		December 31,		
	Actual	As adjusted ⁽²⁾	2004	2003	2002
	(in US dollars)		(in US dollars)		
Balance Sheet Data					
Cash and cash equivalents	615,382	●	434,380	147,790	81,867
Short-term investments	9,025,685	●	8,963,894	1,738,657	4,769,411
Working capital	8,993,046	●	10,143,596	2,108,698	4,322,462
Total assets	13,290,948	●	14,056,749	6,292,047	9,669,767
Total liabilities	870,312	870,312	575,184	624,590	1,119,780
Shareholders' equity	12,420,636	●	13,481,565	5,667,457	8,549,987

Notes:

- (1) Pro forma figures retroactively give effect to the Reorganization. See "Reorganization".
- (2) Assumes completion of the Offering and the Reorganization.

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

The following management's discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the audited and unaudited financial statements and related notes thereto, included elsewhere in this prospectus. The financial statements of the Company are prepared in accordance with Canadian GAAP and presented in US dollars. Unless otherwise noted, all dollar amounts presented in this management's discussion and analysis are presented in US dollars. Unless otherwise noted, the disclosure in this management's discussion and analysis does not give effect to the Reorganization.

This discussion contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. The results of operations, business prospects and financial condition of the Company will be affected by certain risks described elsewhere in this prospectus. See "Risk Factors".

Overview

Novadaq develops and commercializes medical devices based on its proprietary imaging platform for the diagnosis and treatment of human vascular and ophthalmic diseases. The Company has successfully received regulatory clearances and approvals in the United States, Canada, Japan and the European Union for the commercialization and sale of its first product, the SPY System. Since receiving regulatory approvals in the European Union, Canada and Japan, the Company has placed the SPY System in a small number of select medical centers in these jurisdictions for the purpose of generating additional clinical data to support the Company's commercialization efforts. To date, the Company has commenced commercial sales of the SPY System in Japan and is in the first stage of a strategic commercial launch of the SPY System in the United States. The Company has also earned a limited amount of revenue from sales of the SPY System in Europe and Canada.

The Company is selling the SPY System in the United States on a procedure fee basis which involves placing the SPY intra-operative imaging device in hospitals and charging a specified fee for each procedure performed using the SPY System. To date, the Company has placed or made arrangements to place the SPY System in five revenue generating medical centres in the United States. Currently, procedures conducted in the United States using the SPY System are being billed under existing global coronary artery bypass graft surgery codes and professional fees are being billed under existing angiography and angiography interpretation codes.

In Japan, the Company is selling the SPY System on a combination device and procedure fee basis, which involves an initial sale of the SPY intra-operative imaging device, as well as subsequent sales of the consumable sterile drapes that are used to perform the SPY System procedure.

For the years ended December 31, 2004 and December 31, 2003, approximately 95% and 68%, respectively, of the Company's sales were to customers in Japan, with European and Canadian customers accounting for the remainder. Since inception 100% of the Company's sales have been derived from the SPY System, and the majority of its sales are denominated in US dollars.

The Company has also developed the OPTTX System for the diagnosis and treatment of Wet AMD. To date, the Company has not received regulatory clearances or approvals for the commercialization of the OPTTX System. The OPTTX System is currently in a clinical trial in Europe, and the Company is planning a clinical trial in Canada, in preparation for regulatory submissions for clearance and approvals in the United States, Canada, Europe and Japan.

Significant External Factors

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties, and are affected by a number of factors outside of the control of management of the Company. In addition to the factors discussed below, see "Risk Factors" for a complete discussion of the risks affecting the Company's business.

Successful Commercialization of the SPY System

The Company's future success will depend in large part on its ability to market and sell the SPY System. Successful commercialization of the SPY System will depend on a number of factors, including achieving widespread adoption of the SPY System among cardiac surgeons and hospitals, maintaining the Company's relationships with its suppliers, obtaining sufficient quantities of components for the SPY System, including ICG that has been approved for

sale in the United States, establishing adequate sales and marketing capabilities, and the ability of the Company to successfully sell the SPY System at its projected selling price. Successful commercialization will also depend on whether any adverse effects or unfavourable publicity develops in respect of the SPY System, as well as the emergence of new or existing products as competition for the SPY System which are proven to be more effective or more cost-effective.

Dependence on Suppliers

The Company will be dependent on its suppliers to manufacture its products in accordance with FDA and other regulatory requirements. The Company does not control the manufacturing processes of its suppliers. If current manufacturing processes are modified, or the source or location of its product supply is changed, voluntarily or involuntarily, the FDA will require the Company to demonstrate that the products produced from the modified or new process or facility are equivalent to the products previously cleared or approved. Any such modifications to the manufacturing process or supply may not achieve or maintain compliance with the applicable regulatory requirements. In many cases, prior approval by regulatory authorities may be required before any changes can be made, which may adversely affect the Company's business.

Foreign Exchange Fluctuations

The Company generates a significant portion of its sales in US dollars and reports its operations in US dollars but a portion of the Company's expenses are denominated in Canadian dollars. As such, the Company is exposed to fluctuations in the exchange rate between the US dollar and the Canadian dollar as a result of the translation into US dollars of its expenses denominated in Canadian dollars.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Among the accounting estimates described in the notes to the Company's financial statements, management considers the accounting estimates used in the calculation of investment tax credits receivable, the value of acquired licenses and the valuation of stock options to be critical. Results as determined by actual events could differ materially from the previously mentioned estimates.

Investment tax credits

The Company accrues investment tax credits for qualifying research and development costs when there is reasonable assurance that the amounts are recoverable. The Company accounts for investment tax credits relating to research and development expenses as a deduction in the statement of loss and deficit and those relating to capital expenditures as a reduction of the cost of the asset acquired.

Licenses

Licenses acquired are recorded at cost and amortized on a straight line basis over the lesser of their useful lives or the life of the underlying patents. Licenses capitalized at December 31, 2004 are amortized to November 2012.

The Company tests intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. This evaluation is performed by comparing the carrying amounts of these assets to the related estimated undiscounted future cash flows. If these cash flows are less than the carrying amount of the asset, then the carrying amount of the asset is written down to its fair value. Estimates involve future cash flows which are difficult to project.

Stock-based compensation plan

The Company from time to time issues stock options to employees, directors, officers and consultants. The Company has adopted the recommendations of Section 3870 of The Canadian Institute of Chartered Accountants' Handbook, "*Stock-Based Compensation and Other Stock-Based Payments*". Options granted to employees are valued at the grant date using the Black-Scholes option pricing model which requires management to make assumptions as to volatility, exercise date and vesting. The value of the options is expensed over the vesting period. Options granted to

non-employees are valued at the grant date using the Black-Scholes option pricing model. The options are expensed at the earlier of when goods have been received or services performed, or when the options have fully vested.

Change in Accounting Policy

Stock-based compensation plan

The Company has changed its accounting policy with regards to how it values stock options granted to employees and non-employees. Prior to 2004, the Company calculated the value of the options using the minimum value method which is an accepted method for non-public entities. In 2004, the Company changed its method of valuing stock options to use a market volatility rate. This change has been made retroactively. The effect of this change on the financial statements in 2003 was an increase in general and administration expenses of US\$150,000.

Selected Financial Information

The following table sets forth information regarding Novadaq's sales, loss from operations and other information derived from the audited and unaudited financial statements for the periods presented, and should be read in conjunction with the audited and unaudited financial statements and related notes included elsewhere in this prospectus.

	Three Months Ended March 31,		Years Ended December 31		
	2005	2004	2004	2003	2002
	(in US dollars)		(in US dollars)		
Statement of Loss Data					
Revenue	155,418	23,947	1,147,274	332,626	407,079
Cost of sales	36,300	17,152	318,543	254,474	186,668
Gross profit	119,118	6,795	828,731	78,152	220,411
Operating expenses					
Sales and marketing	101,732	47,223	247,892	208,162	417,007
Research and development	718,650	355,799	1,277,386	1,473,733	1,549,343
General and administration	433,571	388,030	1,728,321	1,156,428	358,377
Depreciation	8,266	16,914	60,941	106,678	189,163
Amortization	105,283	100,017	408,844	418,868	2,205,670
Write-down of property, plant and equipment	—	—	—	—	168,681
Write-down of acquired technology	—	—	—	—	4,040,000
Loss (gain) on foreign exchange	7,475	(3,657)	(65,307)	(55,436)	9,923
Loss before the following	(1,255,859)	(897,531)	(2,829,346)	(3,230,281)	(8,717,753)
Interest income	34,321	—	56,481	28,351	45,482
Net loss for the period	(1,221,538)	(897,531)	(2,772,865)	(3,201,930)	(8,672,271)
Basic and fully diluted loss per share	(0.08)	(0.05)	(0.16)	(0.18)	(0.52)

	March 31, 2005	December 31,		
		2004	2003	2002
		(in US dollars)		
Balance Sheet Data				
Cash and cash equivalents	615,382	434,380	147,790	81,867
Short-term investments	9,025,685	8,963,894	1,738,657	4,769,411
Working capital	8,993,046	10,143,596	2,108,698	4,322,462
Total assets	13,290,948	14,056,749	6,292,047	9,669,767
Total liabilities	870,312	575,184	624,590	1,119,780
Shareholders' equity	12,420,636	13,481,565	5,667,457	8,549,987

Operating Results

Quarter Ended March 31, 2005 Compared to Quarter Ended March 31, 2004

Revenue for the quarter ended March 31, 2005 was US\$155,418, representing an increase of US\$131,471 over revenue for the quarter ended March 31, 2004 of US\$23,947. US\$125,000 of this increase is attributable to the sale of a SPY imaging device in the first quarter of 2005. There were no sales of SPY imaging devices in the first quarter of 2004. The balance of the increase in the first quarter of 2005 was as a result of increased sales of consumable supplies used in the SPY imaging procedure as compared to the first quarter of 2004. This increase is due to a higher installed base of SPY imaging devices.

Cost of sales increased by US\$19,148 to US\$36,300 for the quarter ended March 31, 2005, as compared to US\$17,152 for the quarter ended March 31, 2004. Novadaq's gross profit for the quarter ended March 31, 2005 increased by US\$112,323 to US\$119,118 as compared to US\$6,795 for the quarter ended March 31, 2004. As a percentage of sales, gross profit increased to 77% during the quarter ended March 31, 2005 from 28% during the quarter ended March 31, 2004. The gross profit percentage in the first quarter of 2004 was negatively impacted by the relative proportion of freight revenue recorded during the quarter, which was offset by the related freight expense incurred during the same quarter. If first quarter 2004 freight revenue and the related freight expense were excluded from sales and cost of sales, respectively, gross profit for the first quarter of 2004, as a percentage of sales, would have been 47%. Gross profit percentage in the first quarter of 2004 was also negatively affected by the low level of sales of consumable supplies during the quarter, which did not generate sufficient revenue to offset the depreciation cost recorded during the first quarter of 2004 on installed SPY imaging devices.

Sales and marketing expenses increased to US\$101,732 for the quarter ended March 31, 2005 from US\$47,223 for the quarter ended March 31, 2004. The incremental increase in expenses related primarily to increased travel, tradeshow, printing and website costs incurred to launch the SPY System in the United States in the first quarter of 2005.

Research and development expenses increased by US\$362,851 to US\$718,650 for the quarter ended March 31, 2005 from US\$355,799 for the quarter ended March 31, 2004. This increase is attributable to an increase of approximately US\$180,000 incurred to engineer and build OPTTX prototypes, to upgrade the SPY System software and to qualify a new manufacturer for the SPY System, as well as an increase in salary and travel costs of approximately US\$66,500 to support the above noted activities. In addition, during the first quarter of 2005 the Company incurred an increase of approximately US\$115,000 in patent and trademark costs in connection with additional SPY method applications and additional method and apparatus applications for OPTTX and an increase in recruiting costs of approximately US\$37,000 to add senior clinical staff. These increases were partially offset by reduced clinical trial costs during the quarter as Novadaq employees replaced third party contract research organizations.

General and administration expenses increased by US\$45,541 to US\$433,571 for the quarter ended March 31, 2005 from US\$388,030 for the quarter ended March 31, 2004. This increase reflected an increase in salary expense resulting from the hiring of additional administrative staff to support the Company's growth efforts.

Net loss increased by US\$324,007 to US\$1,221,538 for the quarter ended March 31, 2005 from US\$897,531 for the quarter ended March 31, 2004. The increase in net loss related primarily to an increase of US\$362,851 in research and development costs and an increase in sales and marketing costs of US\$54,509, which were partially offset by an increase of US\$112,323 in gross profit.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenue for the year ended December 31, 2004 was US\$1,147,274, representing an increase of US\$814,648, or 245%, over revenue for the year ended December 31, 2003 of US\$332,626. US\$790,000 of this increase is attributable to a 233% increase in the number of SPY imaging devices sold, combined with a 13% increase in average selling price. The increase in the number of SPY imaging devices sold is attributable to sales of the SPY System in Japan, where regulatory approval was obtained in August, 2003 and where commercial sales of the SPY System began in October, 2003. A total of 2 SPY imaging devices were sold in Japan in 2003, and a total of 10 SPY imaging devices were sold in Japan in 2004. The balance of the Company's revenues in 2003 were derived from the sale of two SPY imaging devices, including one to a Canadian customer, the revenue from which is being recognized over the 4-year term of a

related service contract, and from procedural fees charged and consumable supplies sold in Canada and in the European Union.

Cost of sales increased by US\$64,069 to US\$318,543 for the year ended December 31, 2004, as compared to US\$254,474 for the year ended December 31, 2003. Novadaq's gross profit for the year ended December 31, 2004 increased by US\$750,579 to US\$828,731, as compared to US\$78,152 for the year ended December 31, 2003. As a percentage of sales, gross profit increased to 72% during the year ended December 31, 2004 from 23% during the year ended December 31, 2003. The increase in gross profit percentage is attributable to a 13% increase in average selling price of the SPY imaging devices, to a reduction in unit cost of approximately 10% because of lower computer prices during the period, and because there were items included in costs of sales in 2003 that did not recur in 2004. These items included approximately US\$33,000 of inventory write-offs of expired ICG, approximately US\$34,000 of costs incurred to replace articulating arms on SPY imaging devices previously sold or placed, and approximately US\$28,000 of costs incurred to replace an earlier model SPY imaging device that had been purchased by a hospital that was conducting a clinical trial of the SPY System. Without these costs, gross profit as a percentage of sales would have been 52% in 2003.

Sales and marketing expenses increased to US\$247,892 for the year ended December 31, 2004 from US\$208,162 for the year ended December 31, 2003. The incremental increase in expenses related primarily to increased salary and travel costs incurred to market the SPY System in Japan and increased salary and travel costs incurred to prepare for the commercial launch of the SPY System in the United States, and was offset partially by reductions in salary and travel costs that had been incurred in early 2003 to market the device in Europe.

Research and development expenses decreased to US\$1,277,386 for the year ended December 31, 2004 from US\$1,473,733 for the year ended December 31, 2003. This decrease occurred primarily because of reduced engineering expenses during 2004. In 2003 the Company incurred engineering expenses to build a second-generation OPTTX System. In late 2003 it was determined that the prototype design was not satisfactory, and engineering work was suspended, pending design review. The OPTTX System was redesigned in 2004, but meaningful engineering work to build the second-generation device did not commence until the fourth quarter of 2004. Research and development expenses during 2004 were also lower, as compared to 2003, because the Company's initial SPY System clinical trials were completed in the third quarter of 2003, and as a result the Company did not incur similar expenses in 2004.

General and administration expenses increased by US\$571,893 to US\$1,728,321 for the year ended December 31, 2004 from US\$1,156,428 for the year ended December 31, 2003. Most of this increase, being US\$411,741, is attributable to increased stock option compensation expense. The majority of all options outstanding as at December 31, 2004 were issued during 2003 in order to attract qualified individuals to the Company's management team, scientific advisory board, and board of directors. The stock-based compensation expense relating to these options was lower in 2003 than in 2004 because the options were outstanding for all of 2004 and only part of 2003.

Net loss decreased to US\$2,772,865 for the year ended December 31, 2004 from US\$3,201,930 for the year ended December 31, 2003. The decrease in net loss related primarily to a US\$750,579 improvement in gross profit, which was partially offset by the increase in general and administration costs.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenue for the year ended December 31, 2003 was US\$332,626, representing a US\$74,453 or 18% decrease over revenue for the year ended December 31, 2002 of US\$407,079. This decrease is attributable to a decrease in the number of SPY imaging devices sold from five to four, with revenue from one of the four SPY imaging devices that was sold in 2003 being deferred over the 4-year term of a related service contract. This decrease in the number of SPY imaging devices sold was partially offset by a 25% increase in average selling price. The reduction in sales from 2002 to 2003 occurred as a result of the Company's strategic decision to focus its resources primarily on generating clinical data from the SPY System in order to support regulatory approval and adoption of the SPY System in the United States, rather than on generating immediate revenue from sales in Europe and Canada.

Cost of sales increased by US\$67,806 to US\$254,474 for the year ended December 31, 2003 as compared to US\$186,668 in the year ended December 31, 2002. The Company's gross profit for the year ended December 31, 2003 decreased by US\$142,259, or approximately 65%, to US\$78,152 as compared to US\$220,411 for the year ended December 31, 2002. As a percentage of sales, gross profit decreased to 23% during the year ended December 31, 2003 from 54% for the year ended December 31, 2002. Cost of sales in 2003 included approximately US\$33,000 of

inventory write-offs of expired ICG, approximately US\$34,000 of costs incurred to replace articulating arms on SPY imaging devices previously sold or placed, and approximately US\$28,000 incurred to replace an earlier model device that had been purchased by a hospital conducting a clinical trial of the SPY System. Without these unusual costs, gross profit as a percentage of sales would have been 52% in 2003.

Sales and marketing expenses decreased to US\$208,162 for the year ended December 31, 2003 from US\$417,007 for the year ended December 31, 2002. The decrease occurred because of the Company's strategic shift in focus away from sales efforts and to the generation of clinical data that could be used to support subsequent commercialization efforts of the SPY System. The decrease in salary expense was not significant because of severance costs incurred in 2003; however, tradeshow, travel and related expenses decreased by approximately US\$150,000. Also, approximately US\$40,000 was spent on developing the Company's website in 2002, which did not recur in 2003.

Research and development expenses decreased to US\$1,473,733 for the year ended December 31, 2003 from US\$1,549,343 for the year ended December 31, 2002. The decrease in expenses related primarily to reductions in device design and engineering costs, which were partially offset by increases in clinical trial costs. The Company's design and engineering costs during the year ended December 31, 2003 were reduced as compared to the prior year because in 2002 the Company substantially completed the design of its second-generation SPY imaging device. The Company incurred increased clinical trial costs in 2003 because clinical trials conducted for the OPTTX System in Italy commenced in 2003, and because the majority of the costs of a clinical trial of the OPTTX System in New York and the SPY System in Oxford, UK occurred in 2003.

General and administration expenses increased by US\$798,051 to US\$1,156,428 for the year ended December 31, 2003 from US\$358,377 for the year ended December 31, 2002. Most of this increase, being US\$319,000, is attributable to increased stock option compensation expense, as 1,910,000 options were issued during 2003 to attract qualified individuals to the Company's management team, scientific advisory board, and board of directors. The hiring of additional staff, including a new chief executive officer in April 2003, resulted in an increase in salary expense of approximately US\$210,000. Legal expenses also increased by approximately US\$100,000 as a result of litigation that commenced in August 2003 and which was settled in June 2004.

Amortization expense decreased to US\$418,868 for the year ended December 31, 2003 from US\$2,205,670 for the year ended December 31, 2002. Amortization expense for the year ended December 31, 2002 included US\$2,020,000 that related to the amortization of the cost of the repurchase by the Company in January 2002 of a 50% interest in the SPY imaging business from Akorn, Inc. for share consideration valued at US\$6,060,000. The Company initially determined to capitalize this acquisition cost, and to amortize the cost over a three-year period. In late 2002, however, the Company strategically determined to reduce marketing expenditures relating to the SPY System and to shift its primary focus from sales efforts to the generation of clinical data that could be used to support United States regulatory clearances and subsequent commercialization efforts. As a result of this change in emphasis, it was determined that an impairment in the value of the asset acquired may have occurred, and therefore the unamortized amount of the capitalized cost was written off in 2002. As a result, no amortization expense relating to this asset was incurred in 2003.

Fixed assets with a net value of US\$168,681 were written off during 2002. It was determined to write off these fixed assets, which consisted of 13 first generation SPY imaging devices, because they were replaced by the second generation SPY imaging devices, the design of which was finalized in the first half of 2002.

Net loss decreased to US\$3,201,930 for the year ended December 31, 2003 from US\$8,672,271 for the year ended December 31, 2002. The reduction in loss related primarily to the non-recurring US\$6,060,000 expense incurred during 2002 as a result of the amortization, and subsequent write-off, of the acquisition cost of the 50% interest in the SPY imaging business, offset by an increase in general and administration costs.

Liquidity and Capital Resources

Novadaq's principal capital needs are for funds to support scientific research and development activities, including device design and development and clinical trials, and funds to support sales and marketing activities, capital expenditures and working capital. Since inception, Novadaq has financed its cash requirements primarily through issuances of securities, investment tax credits, government contributions and interest income. Management expects that over the short term revenues will continue to increase as a result of the Company's strategic commercial launch of the SPY System into the United States and its continued commercialization of the SPY System in Japan. Management believes that following the completion of this Offering, the Company will have sufficient capital resources over the

near to medium term in order to continue the commercial launch of the SPY System in the United States and the rest of the world, to conduct additional clinical trials of the OPTTX System, to fund additional scientific research and development activities to build its pipeline products and for general corporate and working capital purposes.

As at March 31, 2005 the Company had cash, cash equivalents and short-term investments of US\$9,641,067, an increase of US\$8,235,018 over March 31, 2004. The increase in these balances was largely the result of the issuance of Class C preference shares in July 2004 for net proceeds of US\$10,063,000 offset by a loss from operations generated during the year ended December 31, 2004 and the three months ended March 31, 2005.

Operating Activities

Cash provided by operating activities in the quarter ended March 31, 2005 was US\$255,890 versus a use of cash of US\$449,330 in the quarter ended March 31, 2004. This change was primarily as a result of an increase in cash provided by changes in the net change in non cash working capital of US\$1,041,999, partially offset by an increase in net loss for the period of US\$324,007.

Cash used in operating activities declined from US\$2,960,175 in the year ended December 31, 2003 to US\$2,157,185 in the year ended December 31, 2004, primarily as a result of the decrease in net loss in 2004 over 2003 of US\$429,065 and a US\$411,741 increase in stock option compensation, offset by a decrease in depreciation and amortization of US\$79,119.

Cash used in operating activities increased from US\$2,082,793 in the year ended December 31, 2002 to US\$2,960,175 in the year ended December 31, 2003 primarily because the reduction in net loss of US\$5,470,341 was more than offset by the decrease in depreciation, amortization, write-offs and losses on disposal of property, plant and equipment of US\$6,070,826 and an increase in the net change in non-cash working capital balances of US\$548,647.

Financing Activities

There was no financing activity during the quarter ended March 31, 2005.

Cash provided by financing activities increased from US\$400 in 2003 to US\$9,856,232 in 2004 as a result of the proceeds of US\$10,062,659 from an issuance of Class C Preference Shares, which was offset by the US\$206,427 that was used by the Company in 2004 in order to complete a net purchase of Class A and Class B Common Shares from certain shareholders.

Cash provided by financing activities decreased from US\$9,217,087 in 2002 to US\$400 in 2003 as a result of the proceeds of US\$9,209,887 from issuance of Class C Preference Shares and the proceeds of US\$7,200 from an issuance of Class B Common Shares in 2002.

Investing Activities

Cash used in investing activities in the quarter ended March 31, 2005 included investments in short-term securities of US\$61,791 and investments of US\$13,097 in property, plant and equipment. Cash provided by investing activities in the quarter ended March 31, 2004 included net sale of investments in short-term securities of US\$456,786 and investments of US\$31,068 in property, plant and equipment

Cash used in investing activities in the year ended December 31, 2004 included investments in short-term investments of US\$7,225,237, capitalization of license payments of US\$175,000 related to licensed OPTTX patents, and investments of US\$12,220 in property, plant and equipment. Cash provided by investing activities in the year ended December 31, 2003 included proceeds from investments in short-term securities of US\$3,030,754. Cash used in investment activities in the year ended December 31, 2002 included investments in short term investments of US\$4,769,412, capitalization of licence payments of US\$2,150,000 and purchases of property, plant and equipment of US\$288,625.

Contractual Obligations

The following table provides an overview of Novadaq's contractual obligations as at December 31, 2004:

	<u>Total</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Premises lease	US\$203,620	US\$55,144	US\$56,799	US\$57,901	US\$33,776

Commitments Under Royalty and License Agreements

Under an international rights license agreement with The Johns Hopkins University, the Company acquired the rights to all foreign patent applications, excluding the U.S. rights corresponding to U.S. patents numbered 5,279,298 and 5,394,199. The patents are titled respectively, “Method and Apparatus to Identify and Treat Neovascular Membranes in the Eye” and “Method and Apparatus for Improved Visualization of Choroidal Blood Flow and Aberrant Structures in the Eye Using Fluorescent Dye Angiography”. Total consideration for the purchase of this license was US\$4,400,000, consisting of upfront payments and milestone payments. As at December 31, 2004, the Company has future commitments to Johns Hopkins University — Applied Physics Laboratory in the amount of US\$1,450,000. Under this license the Company is also required to pay running royalties on the sales of products and services ranging from 1.5% to 7.0% of gross sales revenues, depending in part on annual sales volume. The Company may be required to pay minimum royalty payments, depending on the amount of running royalties paid in the year prior to the date that minimum royalty payments are due.

The United States rights to the patents noted in the preceding paragraph were separately acquired from The Johns Hopkins University under a United States rights license. Total consideration for the purchase of this license was US\$4,370,000, which consists of upfront payments and milestone payments. As at December 31, 2004, the Company had future commitments with respect to this license agreement in the amount of US\$2,995,000. The Company will also be required to pay running royalties on gross sales revenues at a rate of either 3.0% or 4.5%, depending on the type of regulatory approval obtained from the FDA. The Company may be required to pay minimum royalty payments, depending on the amount of running royalties paid in the year prior to the date that a minimum royalty payment is due.

Off-Balance Sheet Arrangements

The Company has received contributions totaling Cdn\$985,050 from the National Research Council of Canada’s Industrial Research Assistance Program for two separate projects. This contribution is repayable commencing in 2004 for one project and commencing in 2005 for the other project. For each of two projects, the Company is obligated to pay the NRC 1.0% of its gross revenue until the earlier of i) repayment to the NRC of 150% of the contribution received within the first four years of the repayment period, ii) full repayment of contributions, or iii) March 2015. Interest of 12.68% is payable on overdue amounts.

The Company has received financing totaling Cdn\$76,252 from Industry Canada under the Market Development Strategies section of the Program for Export Market Development. This assistance is conditionally repayable commencing in 2003. The Company is obligated to repay Industry Canada 4.0% of the Company’s incremental gross export revenue to Europe until the earlier of full repayment or July 2006.

Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, short-term investments, accounts and other receivables, accounts payable and accrued liabilities.

The Company is subject to credit risk with respect to its accounts receivable to the extent that debtors do not meet their obligations and foreign exchange risk with respect to financial instruments denominated in a currency other than the Company’s functional currency.

Transactions with Related Parties

On July 26, 2004, pursuant to share purchase agreements with certain shareholders who were also related parties, the Company purchased 7,923,793 Class A Common Shares and 132,013 Class B Common Shares for US\$2,402,500. The Company purchased 4,000,000 Class A Common Shares and 132,013 Class B Common Shares for US\$2,000,000 from Akorn, Inc., a shareholder who owned greater than 10% of the Class A Common Shares and was entitled to a seat on the Board of Directors. The Company purchased 2,573,793 Class A Common Shares from a shareholder who was a former chief financial officer of the Company, for US\$267,500. The Company purchased 1,350,000 Class A Common Shares of the Company for US\$135,000 from Diaspec Holdings Inc., a shareholder whose nominee served as a director until July 26, 2004.

On November 22, 2004, pursuant to a share purchase agreement with a shareholder who was a former officer of the Company, the Company purchased 2,573,793 Class A Common Shares for US\$295,987.

The descriptions of the foregoing transactions with related parties have not been adjusted to give effect to the Reorganization.

Recent Events

In the event this Offering is completed, any federal investment tax credits earned by the Company for taxation periods ending after the Offering can only be used by the Company to offset federal income taxes payable. In addition, the rate at which the Company will earn federal investment tax credits for taxation years ending after the closing of the Offering will change to a rate of 20%.

In addition, under the terms of the Company's Previous Plan all options vest 91 days after the completion of the Offering (if they have not already vested as of such date). A total of 1,136,250 options will be vested within 91 days of the closing of the Offering (assuming completion of the Reorganization). As a result, the remaining unamortized stock-based compensation of approximately US\$900,000 will be recorded in the period the options vest.

CAPITALIZATION

The following table sets forth the capitalization of the Company as at the dates given, as adjusted to give effect to this Offering without giving effect to the exercise of the Over-Allotment Option.

	<u>Authorized</u>	<u>As at March 31, 2005</u>	<u>As at ●, 2005 after giving effect to this Offering</u>
Common Shares ⁽¹⁾⁽²⁾	unlimited	●	●
Preferred Shares ⁽¹⁾⁽²⁾	unlimited	nil	nil

Notes:

- (1) The amounts and number of shares outstanding all give effect to the Reorganization and, accordingly, do not reflect the actual amounts outstanding, class of shares outstanding, or the number of shares outstanding as of the date given. See “Description of Share Capital” and “Reorganization”.
- (2) There are currently a total of 13,787,552 Class A Common Shares, 1,305,519 Class B Common Shares and 14,796,479 Class C Preference Shares issued and outstanding, without giving effect to the Reorganization or the Offering. In connection with its prior financing in 2002, the Company issued to certain investors and agents, warrants to purchase an aggregate of 3,630,630 Class A Common Shares of the Company at an exercise price of US\$1.515 per share, subject to adjustment, and without giving effect to the Reorganization. These warrants will expire on March 21, 2006. In addition, the Company has issued two shareholders irrevocable options to purchase up to an aggregate of 306,188 Class A Common Shares of the Company at a price of US\$1.515 per share, without giving effect to the Reorganization. These options will expire on March 21, 2006. There are also a total of 3,190,000 options outstanding under the Company’s amended stock option plan, without giving effect to the Reorganization.

USE OF PROCEEDS

The estimated net proceeds of the Offering, assuming no exercise of the Over-Allotment Option, after deducting the underwriters’ fee and the estimated expenses of the Offering, estimated to be \$ ● , will be \$ ● . The Company will use approximately 35% the net proceeds of the Offering to continue the commercial launch of the SPY System in the United States and the rest of the world, approximately 40% to conduct clinical trials for the OPTTX System and to fund additional research and development initiatives targeted towards expanding the Company’s product pipeline and to further build the Company’s capabilities for optics and imaging software, and approximately 25% for general corporate and working capital purposes.

DIRECTORS AND OFFICERS

The following table sets forth the names, municipalities of residence, positions held with the Company and principal occupations of the directors and executive officers of the Company and, if a director, the month and year in which the person became a director. The directors of the Company will hold office until the next annual meeting of shareholders of the Company.

<u>Name and Municipality of Residence</u>	<u>Position with the Company</u>	<u>Principal Occupation</u>	<u>Director Since</u>
DR. ARUN MENAWAT Oakville, Ontario	Director, President and Chief Executive Officer	President and Chief Executive Officer of Novadaq	July 2003
ROGER DECK, C.A. Toronto, Ontario	Chief Financial Officer	Chief Financial Officer of Novadaq	
RICK MANGAT Markham, Ontario	Vice President Operations	Vice President Operations of Novadaq	
MARY KAY BAGGS Vero Beach, Florida	Vice President Sales & Marketing, Cardiac	Vice President Sales & Marketing, Cardiac of Novadaq	
ALLISON MANNERS Palgrave, Ontario	Vice President, Regulatory and Clinical Affairs	Vice President, Regulatory and Clinical Affairs of Novadaq	
JEFFREY M. SINGER Toronto, Ontario	Corporate Secretary	Partner, Stikeman Elliott LLP	
DAVID BROWN ⁽¹⁾ Winnipeg, Manitoba	Director	Partner, Gray & Brown Managing Director, Richardson Capital Limited	July 2002
AARON DAVIDSON ⁽²⁾ Bolton, Ontario	Director	Managing Director, H.I.G. Ventures	July 2004
BARRY GEKIERE ⁽¹⁾ Oakville, Ontario	Director	Senior Vice-President, Ventures West	July 2004
ANTHONY GRIFFITHS ⁽²⁾ Toronto, Ontario	Chairman, Director	Corporate Director	June 2002
HAROLD O. KOCH, JR. Mandeville, Louisiana	Director	Vice President Business Development & Scientific Affairs, PamLab, LLC	September 2003
DR. BRENT NORTON ⁽¹⁾ Toronto, Ontario	Director	President and Chief Executive Officer, International Medical Innovations	March 2002
DR. JOSEPH SOBOTA ⁽²⁾ Kalamazoo, Michigan	Director	Managing Director, Apjohn Group LLC	September 2003

Notes:

(1) Denotes member of the Audit Committee.

(2) Denotes member of the Compensation and Corporate Governance Committee.

Biographies

The following are brief profiles of the executive officers and directors of the Company, including a description of each individual's principal occupation within the past five years.

Arun Menawat. Dr. Menawat has been the President and Chief Executive Officer of Novadaq since 2003. From 1999 to 2003, Dr. Menawat held increasing executive responsibilities including, President and Chief Operating Officer of Cedara Software Corporation, a publicly traded medical device and health care software company. Prior to joining Cedara, Dr. Menawat was Vice President, Operations at Tenneco Inc., a diversified business conglomerate, now separated into multiple companies. He also served as business manager and research & development manager at Hercules Incorporated, a specialty chemicals company. Dr. Menawat holds a B.S. in biology from the University of District of Columbia and an M.S. and Ph.D. in Chemical (Bio) Engineering from the University of Maryland. Dr. Menawat completed a fellowship in biomedical engineering at the National Institutes of Health. He also holds an Executive MBA from the J.L. Kellogg School of Management, Northwestern University.

Roger Deck. Mr. Deck has over 15 years of operational and financial experience. He has been the Chief Financial Officer of Novadaq since 2004. Mr. Deck served as Vice President, Financial Advisory Services at PricewaterhouseCoopers LLP from 2001 to 2003. From 2000 to 2001 Mr. Deck worked with J.R./Janus Merchant Brokers Ltd., an independent mid-market M&A advisory firm. Prior to that role, Mr. Deck served as Vice President, Merchant Banking at Brascan Corporation, starting in this position in 1996. Mr. Deck is a chartered accountant and holds a bachelor's degree in Economics from the University of Western Ontario.

Rick Mangat. Mr. Mangat is a co-founder of Novadaq and co-inventor of the SPY System. The research element of his PhD thesis (Pharmacology and Therapeutics) performed at the National Research Council of Canada (Institute for Biodiagnostics) formed the foundation for the SPY System and related intellectual property. Mr. Mangat led the commercialization team for the SPY System from bench-top to clinical use and remains strongly involved in its market development. Mr. Mangat received his BSc from the University of Toronto and his PhD is pending from the University of Manitoba.

Mary Kay Baggs. Ms. Baggs has over 25 years of clinical, sales and marketing experience in the cardiovascular medical device market in start-up, mid-size and large companies, beginning her career at Boston Scientific Corporation. Ms. Baggs rejoined Novadaq as Vice President, Sales and Marketing, Cardiac in November 2004. From 2002 to 2004, Ms. Baggs served as Vice President of Sales and Marketing for Chase Medical, Richardson, Texas. Prior to joining Chase, Ms. Baggs was the Vice President of Marketing at Novadaq from 2000 to 2002. Previous positions included Director of Marketing at Biocompatibles PLC and Director of Marketing at Cardiothoracic Systems and Guidant Corporation. Ms. Baggs holds a diploma from the New England Deaconess Hospital School of Nursing and Northeastern University and a Bachelor of Science degree from Louisiana State University.

Allison Manners. Ms. Manners has been the Vice President of Regulatory and Clinical Affairs at Novadaq since 2004. She is also President of Manners Regulatory Management Inc., an independent regulatory consulting firm she established in 2002. In 2003, Ms. Manners was Director of Regulatory Affairs at Viventia Biotech Inc. From 2001 to 2002, Ms. Manners held increasing roles of responsibility, including Vice President, Regulatory Affairs, at Syn-X Pharma Inc. Prior to joining Syn-X Pharma, Ms. Manners acted in managerial roles in Global Regulatory Affairs and Quality Control at Hemosol Inc. from 1998 to 2001. Prior to this, Ms. Manners spent six years working for Lilly Research Laboratories, Eli Lilly and Company. Ms. Manners holds a Bachelor of Science in chemistry from Queen's University.

Jeffrey M. Singer. Mr. Singer has been a partner in the Toronto office of Stikeman Elliott LLP since 2003, and prior to that time he was a partner at another Toronto law firm. He practices primarily in the area of securities and corporate law, specializing in corporate finance and mergers and acquisitions. Mr. Singer is a member of the Securities Advisory Committee of the Ontario Securities Commission. Mr. Singer has participated in numerous panels and conferences on corporate and securities law and has guest lectured at both the University of Toronto and York University on these subjects. Mr. Singer holds a Juris Doctor (JD) degree from the University of Toronto and a Bachelor of Business Administration (BBA) from the Schulich School of Business. Mr. Singer is a member of both the Law Society of Upper Canada (Ontario) and the State Bar of California.

David Brown. Mr. Brown is a partner at Gray & Brown, an independent legal and accounting firm and a managing director of Richardson Capital Limited. Mr. Brown is a lawyer and a chartered accountant who provides professional services primarily to medium and large family businesses and investment companies in the areas of taxation, mergers, acquisitions and divestitures, corporate reorganizations, financings and estate planning. He also serves as a member of the Investment Committee of the RFG Private Equity Fund. Mr. Brown serves on boards for a number of private companies including Richardson Partners Financial Holdings Limited, Richardson Capital Limited and Plastic Moulders Holdings Limited. He is also a member of the Law Society of Manitoba, the Canadian Bar Association, the Canadian Tax Foundation and the Institute of Chartered Accountants of Manitoba.

Aaron Davidson. Mr. Davidson has been a Managing Director at H.I.G. Ventures, a private equity firm, since January 2004 and focuses on investment opportunities in the life sciences sector. Prior to joining H.I.G, Mr. Davidson was a Vice President with Ventures West with a focus on venture investing in life sciences companies from May 2002 to 2003. Prior to joining Ventures West, Mr. Davidson was the Vice-President of Corporate Business Development at Syn-X Pharma Inc. from March 2001 to May 2002. Prior to joining Syn-X Pharma, Mr. Davidson spent 10 years with Eli Lilly Company, one of the largest global pharmaceutical companies, in various management positions in the U.S. and Canada including business development, strategic planning, market research, and financial planning. Mr. Davidson is a director of Gemin X Biotechnologies Inc, HyperBranch Medical Technology Inc., Oncogenex Technologies Inc, Salmedix Inc. and is a board observer at Avera Pharmaceuticals Inc. and NeuroAxon Inc. Mr. Davidson holds an MBA from Harvard Business School and a Bachelor of Commerce degree from McGill University.

Barry Gekiere. Mr. Gekiere has been the Senior Vice-President of Ventures West, one of Canada's largest privately owned venture capital companies, since 1996 where he leads their IT group. Prior to joining Ventures West, Mr. Gekiere held executive positions with Penfund Partners Inc. and VenGrowth Capital Funds, both of which made private equity investments in small and medium sized companies. Mr. Gekiere has also held operating roles as President of Modine Manufacturing Canada, an automotive parts company and Devjo Industries, an industrial products company. Mr. Gekiere has also served on the board of directors of several private and public companies and is currently a director of Activplant Company, Avokia Inc., Nuvo Network Management Inc. and TimeSpring Corporation. Mr. Gekiere has an Honours Business Administration degree from the University of Western Ontario.

Anthony Griffiths. Mr. Griffiths is Chairman of the board of directors of the Company and is currently an independent business consultant and corporate director. Mr. Griffiths became the Chairman of Mitel Corporation, a telecommunications company, in 1987 and also assumed the positions of President and Chief Executive Officer in addition to that of Chairman from 1991 to 1993. Mr. Griffiths is also the Chairman of Russel Metals Inc. and Leitch Technology Corporation and a director of Vitran Corporation, Fairfax Financial Holdings Limited, IMI International Medical Innovations Inc., Alliance Atlantis Communications Inc., Hub International Limited, Jaguar Mining Inc., Counsel Corporation, Northbridge Financial Corporation and Binscarth PVC Ventures Inc.

Harold O. Koch, Jr. For the past 28 years Mr. Koch has held senior management positions in R&D, regulatory, and business development in the pharmaceutical and Class III medical device fields. Mr. Koch has been the Vice President of Business Development & Scientific Affairs at PamLab L.L.C., a developer, licensor and marketer of pharmaceutical products since July 2002. Prior to joining PamLab, Mr. Koch held senior management positions with Rorer Group, Cooper Companies, Akorn, Inc., Santen, Inc. and has consulted for various ophthalmic biotechnology companies. Mr. Koch holds 3 U.S. patents in ophthalmology, one of which is the leading viscoelastic product in the U.S. (Viscoat), with annual sales in excess of US\$100 million. Mr. Koch holds a Bachelor of Science degree in medical microbiology from Texas A&M University, is an active member of the Licensing Executives Society and a director of Southern BioAlliance (a nine state biotechnology consortium).

Brent Norton. Dr. Norton is the Founder, President and Chief Executive Officer of IMI International Medicine Innovations Inc., a publicly traded company and a world leader in predictive medicine, dedicated to developing rapid, non-invasive tests for the early detection of life-threatening diseases. Dr. Norton has been active in medical practice, management and research for over 15 years. Throughout his career he has represented and lead multiple medical groups and scientific initiatives. Dr. Norton is also a member of various boards of directors for both public and private medical companies in Canada and the U.S and is an Advisory Council Member of the Richard Ivey School of Business MBA Biotech Program. He is also an active volunteer and has previously served as Chairman, Friends Project, for the Canadian Institute for Advanced Research and as a Committee Member of the Canadian Intergovernmental Economic Commission, Advanced Technology Group. Dr. Norton holds an M.D. from McGill University and completed his post-graduate work in biomedical engineering at Ecole Polytechnique at the University of Montreal. Dr. Norton also holds an MBA from the Ivey School of Business, University of Western Ontario.

Joseph Sobota. Dr. Sobota has over 15 years of experience with life science startup companies as a founder, board member, senior management executive and consultant. Dr. Sobota is the managing director of Apjohn Group, LLC, a business development and accelerator group focused on life science opportunities, a position he has held since 2001. Dr. Sobota was a general partner and founder of Apjohn Ventures capital organization. Prior to this, Dr. Sobota was the Chief Executive Officer of Rubicon Genomics, a leader in nucleic acid amplification. Prior to joining Rubicon Genomics, Dr. Sobota was the President and Chief Operating Officer of Biopure and Executive Vice President and Chief Operating Officer of Chugai-Upjohn. Dr. Sobota holds an M.D. from Georgetown University and completed his

post-graduate residency training at Tulane University and the National Institutes of Health. Dr. Sobota is board certified in anatomic and clinical pathology and has held faculty appointments as visiting professor of pathology at Dartmouth Medical School and as Adjunct Professor of Medicine at Northwestern University School of Medicine. Dr. Sobota also serves on various corporate and scientific boards.

Mr. Gekiere was formerly a director of Inverpower Controls Ltd. which was placed into bankruptcy on August 10, 2001.

Mr. Griffiths was formerly a director of Consumers Packaging Inc. and during the protection period under the *Companies' Creditors Arrangement Act* ("CCAA") in 2001, cease trade orders were issued against management and insiders due to failure to file financial statements. Mr. Griffiths was also formerly a director of Brazilian Resources Inc., which was issued a temporary cease trade order by the Ontario Securities Commission on June 10, 2001 relating to management and insiders for the late filing of financial statements. This order was rescinded on June 30, 2001. Mr. Griffiths was also a director of Slater Steel Inc., which operated under the protection of the CCAA in an orderly wind-down in 2003.

As at the date hereof, the directors and executive officers of the Company, as a group, own or control, directly or indirectly, an aggregate of • Common Shares representing approximately • % of the outstanding Common Shares of the Company (• % on a fully-diluted basis) and without giving effect to the Common Shares issuable under the Offering. The number of Common Shares that the directors and executive officers of the Company will own or control, directly or indirectly, at closing of the Offering, will be • Common Shares representing approximately • % of the outstanding Common Shares of the Company without giving effect to the exercise of the Over-Allotment Option or taking into account any purchases of Common Shares pursuant to the Offering which may be made by such directors and executive officers (• % on a fully-diluted basis).

Committees of the Board of Directors

The board of directors of the Company has two committees: an audit committee and a compensation and corporate governance committee, both of which are comprised entirely of independent and unrelated directors.

Audit Committee

The Directors have appointed an audit committee consisting of three Directors, all of who are independent and financially literate within the meaning of applicable securities laws. The audit committee is responsible for the oversight and supervision of:

- the accounting and financial reporting practices and procedures of the Company;
- the adequacy of the internal accounting controls and procedures of the Company; and
- the quality and integrity of the financial statements of the Company.

In addition, the audit committee is responsible for the appointment, compensation, retention and oversight of the external auditor, as well as the pre-approval of all non-audit services provided by the external auditor, and for directing the auditor's examination into specific areas of the business of the Company. The audit committee has a written charter and establishes procedures to deal with complaints regarding accounting, internal accounting controls or auditing matters and deals with confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

Compensation and Corporate Governance Committee

The compensation and corporate governance committee will review and make recommendations to the board concerning the appointment of officers of the Company and the hiring, compensation, benefits and termination of senior executive officers and all other key employees of the Company. The committee will annually review the Chief Executive Officer's goals and objectives for the upcoming year and provide an appraisal of the Chief Executive Officer's performance. The committee will administer and make recommendations regarding the operation of the Company's stock option plan (described below). The committee will also be responsible for developing the Company's approach to corporate governance issues, advising the board in filling vacancies on the board and periodically reviewing the composition and effectiveness of the board and the contribution of individual directors. All members of this committee will be directors who are independent within the meaning of applicable securities laws.

Scientific Advisors

The Company consults on an informal basis with a number of cardiac and ophthalmic experts and advisors whom the Company believes will enhance its capabilities. These consultants advise the Company as to its research and product development programs, as well as other areas of scientific expertise relevant to the further development of Novadaq's intellectual property and devices. The Company's current scientific advisors include Dr. Robert Flower and Dr. Robert Devenyi.

Dr. Robert Flower has been the Chief Science Advisor of Novadaq since 2002. He is also a research professor of ophthalmology at the New York University School of Medicine and Director of Biophysical Research at the Retina Research Center of the Manhattan Eye, Ear & Throat Hospital where he participated in the establishment of the Digital Angiography Reading Center. Dr. Flower, a physicist by training, has been involved principally in ophthalmic research for more than 30 years. In addition to providing some of the first sub-cardiac-cycle resolution descriptions of choroidal blood flow, he developed the first clinical method for routine visualization of the human choroidal circulation using indocyanine green fluorescence angiography which is now the standard method in use. In 1995, Dr. Flower joined the faculty of the University of Maryland, Department of Ophthalmology as associate professor to resume his research activities full time. Prior to joining the University of Maryland faculty, Dr. Flower served for 10 years as Director of the Applied Physics Laboratory/Johns Hopkins Medical School Collaborative Biomedical Program. Dr. Flower has entered into a consulting agreement with the Company pursuant to which he has agreed to devote to the Company a minimum average of 160 hours per month during the life of the agreement.

Dr. Robert Devenyi is a vitreoretinal surgeon, the Director of Retinal Services and the Ophthalmologist-in-Chief at the University Health Network, The University of Toronto. He is also a Professor of Ophthalmology at the University of Toronto and the Team Ophthalmologist for the Toronto Maple Leafs of the National Hockey League. In addition to his extensive clinical experience with all aspects of retinal disease, he has been actively involved in both basic science and clinical research into retinal disease.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides a summary of the compensation of the President and Chief Executive Officer and the Chief Financial Officer of the Company and the three most highly compensated individuals who served as executive officers of the Company (collectively, the "Named Executive Officers") for the year ended December 31, 2004 whose total bonus and salary exceeded \$150,000.⁽¹⁾

Name and Principal Position	Annual Compensation				Long-Term Compensation	
	Year	Salary	Bonus	Other Annual Compensation	Securities Under Options Granted ⁽⁵⁾	All Other Compensation
DR. ARUN MENAWAT President and Chief Executive Officer	2004	\$266,000	\$162,500 ⁽³⁾⁽⁴⁾	\$9,000	1,000,000	—
ROGER DECK ⁽²⁾ Chief Financial Officer	2004	\$110,000	—	\$5,000	100,000	—
RICK MANGAT Vice President Operations	2004	\$128,333	\$ 32,868	\$7,500	17,500	—

Notes:

- (1) Based upon the foregoing, the individuals noted above were the only Named Executive Officers of the Company during the Company's most recently completed financial year.
- (2) Mr. Deck was appointed Chief Financial Officer of the Company on February 16, 2004. Prior to this appointment, Mr. Avininder Grewal was Chief Financial Officer of the Company and received compensation totalling \$61,000 for the year ended December 31, 2004.
- (3) Of the \$162,500 bonus awarded to Dr. Menawat for the year ended December 31, 2004, \$50,000 was due and paid pursuant to a contractual entitlement arising upon the successful completion of a financing in July 2004 and \$12,500 reflected the pro rata bonus amount payable to Dr. Menawat under his prior employment agreement for the period from April 1, 2003 to March 31, 2004.
- (4) As a performance bonus in respect of the 2004 calendar year, the board has agreed to issue to Dr. Menawat, prior to the closing of the Offering, Common Shares having a value equal to \$100,000, with the number of Common Shares being determined based upon the price at which Common Shares are offered and sold pursuant to this Offering.
- (5) Assumes completion of the Reorganization.

Option Grants During The Year Ended December 31, 2004

<u>Name</u>	<u>Common Shares Under Options</u>	<u>Per Cent of Total Options</u>	<u>Exercise Price</u>	<u>Market Value of Common Shares Underlying Options</u>	<u>Expiration Date</u>
DR. ARUN MENAWAT ⁽¹⁾ President and Chief Executive Officer	—	—	—	—	—
ROGER DECK Chief Financial Officer	50,000 ⁽³⁾ 50,000 ⁽³⁾	41.7% 41.7%	US\$1.00 ⁽³⁾ US\$1.00 ⁽³⁾	N/A N/A	February 2009 November 2009
RICK MANGAT ⁽²⁾ Vice President Operations	—	—	—	—	—

Notes:

- (1) Dr. Menawat was granted 250,000 options on March 29, 2005 at an exercise price of US\$1.00, assuming completion of the Reorganization. Dr. Menawat currently holds a total of 1,000,000 options with an exercise price of US\$1.00, assuming completion of the Reorganization. A total of 750,000 of these options will be vested in full 91 days after closing of the Offering.
- (2) Mr. Mangat was granted 17,500 options on March 29, 2005 at an exercise price of US\$1.00, assuming completion of the Reorganization.
- (3) Assuming completion of the Reorganization.

Management Arrangements

The Company has entered into employment agreements with each of Arun Menawat, Roger Deck and Rick Mangat, the material terms of which are summarized below.

Arun Menawat. The employment agreement with Dr. Menawat is for an indefinite term, subject to the termination provisions within the agreement. The agreement provides for a base salary of \$280,000 and eligibility to receive an annual bonus based on a target of 40% of the amount of Dr. Menawat's base salary, which amount may be increased by the Board in its sole discretion. The agreement contains non-solicitation and non-competition covenants in favour of the Company which apply during the term of Dr. Menawat's employment and for a period of two years following the termination of his employment (one year for his non-competition covenant if terminated otherwise than for cause), and confidentiality covenants in favour of the Company which apply indefinitely. In addition, if Dr. Menawat is terminated for any reason other than for cause, Dr. Menawat will receive an amount equal to the aggregate of his base salary and bonus in respect of the current fiscal year. If Dr. Menawat is terminated or resigns for good reason (as defined therein) upon a change of control, Dr. Menawat will receive an amount equal to two times the sum of his base salary in respect of the current fiscal year and the average of his bonus in respect of the past and current year and all of his outstanding options will vest, to the extent that they were previously unvested. In such circumstances, Dr. Menawat will also receive benefits for two years following termination or resignation for good reason or alternatively, he shall receive the costs of replacing the benefits for the same period.

Roger Deck. The employment agreement with Mr. Deck is for an indefinite term, subject to the termination provisions within the agreement. The agreement provides for a base salary of \$110,000 (which was subsequently increased to \$120,000). The agreement contains non-solicitation and non-competition covenants in favour of the Company which apply during the term of Mr. Deck's employment and for a period of two years following the termination of his employment, and confidentiality covenants in favour of the Company which apply indefinitely. In addition, if Mr. Deck is terminated for any reason other than for cause, Mr. Deck will receive his base salary and benefits until the earlier of Mr. Deck obtaining alternate employment or three months following his termination. If Mr. Deck secures alternate employment prior to the expiry of the notice period, Mr. Deck will receive 50% of the balance remaining.

Rick Mangat. The employment agreement with Mr. Mangat is for an indefinite term, subject to the termination provisions within the agreement. The agreement provides for a base salary of \$120,000 (which was subsequently increased to \$140,000). The agreement contains non-solicitation and non-competition covenants in favour of the Company which apply during the term of Mr. Mangat's employment and for a period of two years following the termination of his employment, and confidentiality covenants in favour of the Company which apply indefinitely. In addition, if Mr. Mangat is terminated for any reason other than for cause, Mr. Mangat will receive his base salary and benefits for three months following his termination.

Compensation of Directors

Following closing of the Offering, each of the directors will receive an annual fee of \$10,000 for serving on the board.

STOCK OPTION PLAN

The Company has established an amended stock option plan (the “Plan”) for the employees, directors, senior officers and consultants of the Company and of any affiliate of the Company which governs all options issued under its previously existing stock option plans (the “Previous Plans”) and future option grants made under the Plan. The Plan was established to provide additional incentives to attract and retain employees, directors, senior officers and consultants of the Company and its affiliates.

Under the Plan, options to purchase Common Shares of the Company may be granted by the board of directors to directors, senior officers, employees and consultants of the Company or its affiliates. Options granted under the Plan will have an exercise price of not less than the volume weighted average trading price of the Common Shares on the stock exchange on which the Common Shares are traded for the five trading days immediately preceding the day on which the option is granted. The maximum aggregate number of Common Shares which may be subject to options under the Plan is 10% of the common shares of the Company outstanding from time to time.

Options granted under the Plan will generally vest over a three year period and may be exercised in whole or in part at any time as follows: 33% on or after the first anniversary of the grant date, 67% on or after the second anniversary of the grant date, and 100% on or after the third anniversary of the grant date. Options will expire on the fifth anniversary of the grant date. Any option not exercised prior to the expiry date will become null and void. Options granted under the Previous Plans and continued under the Plan will vest in full 91 days after closing of the Offering if they have not already vested as of such date. A total of 1,136,250 options (after giving effect to the Reorganization) will be vested within 91 days of the closing of the Offering.

In connection with certain change of control transactions, including a take-over bid, merger or other structured acquisition, the board of directors may accelerate the vesting date of all unvested options such that all optionees will be entitled to exercise their full allocation of options and in certain circumstances where such optionee’s employment is terminated in connection with such transactions, such accelerated vesting will be automatic.

Options granted under the Plan terminate on the earlier of the expiration date of the option or 180 days following the death of the optionee, termination of the optionee’s employment because of permanent disability, termination of the optionee’s employment because of the retirement of an optionee or as a result of such optionee ceasing to be a director, 30 days following termination of an optionee without cause or immediately upon an optionee being terminated for cause.

The following chart sets out the number of options to purchase common shares issued to the groups of individuals identified below, after giving effect to the Reorganization:

<u>Group</u>	<u>Number of Persons Holding Options</u>	<u>Number of Options</u>	<u>Exercise Price</u>	<u>Date of Grants</u>	<u>Expiration Dates</u>
Executive Officers and Former					
Executive Officers	6	1,220,000	US\$ 1.00	April 14, 2003 to March 29, 2005	April 14, 2008 to March 29, 2010
Directors and Former Directors Who					
Are Not Executive Officers	6	120,000	US\$ 1.00	September 30, 2003 to July 26, 2004	September 30, 2008 to July 26, 2009
Current and Former Employees	1	5,000	US\$0.165	February 12, 2001	February 12, 2006
	8	96,250	US\$ 1.00	March 30, 2001 to March 29, 2005	March 30, 2006 to March 29, 2010
Consultants	18	153,750	US\$ 1.00	March 30, 2001 to March 29, 2005	March 30, 2006 to March 29, 2010

As at the date hereof, the directors and executive officers and former directors and former executive officers of the Company hold options to acquire an aggregate of 1,340,000 Common Shares of the Company, employees and former employees of the Company hold options to acquire an aggregate of 101,250 Common Shares of the Company, and consultants of the Company hold options to acquire an aggregate of 153,750 Common Shares of the Company, in each case after giving effect to the Reorganization.

DESCRIPTION OF SHARE CAPITAL

Current Capital Structure

The Company is currently authorized to issue an unlimited number of Class A Common Shares, Class B Common Shares and Class C Preference Shares. There are currently a total of 13,787,552 Class A Common Shares, 1,305,519 Class B Common Shares and 14,796,479 Class C Preference Shares issued and outstanding, without giving effect to the Reorganization or the Offering. In connection with its prior financing in 2002, the Company issued to certain investors and agents, warrants to purchase an aggregate of 3,630,630 Class A Common Shares of the Company at an exercise price of US\$1.515 per share, subject to adjustment, and without giving effect to the Reorganization. These warrants will expire on March 21, 2006. In addition, the Company has issued two shareholders irrevocable options to purchase up to an aggregate of 306,188 Class A Common Shares of the Company at a price of US\$1.515 per share, without giving effect to the Reorganization. These options will expire on March 21, 2006. There are also a total of 3,190,000 options outstanding under the Company's amended stock option plan, without giving effect to the Reorganization.

The articles of the Company currently provide that each Class B Common Share may be converted at any time at the option of the Company into one Class A Common Share. The Class C Preference Shares are currently convertible, at the option of the holder, into Class A Common Shares of the Company at a one to one ratio. The articles of the Company currently also provide that in the event of an initial public offering of the Company's Class A Common Shares, the Class C Preference Shares may be converted at the option of the holder into Class A Common Shares on the following basis:

- (i) if the offering price of the Class A Common Shares is equal to or greater than US\$4.53 or its equivalent (without giving effect to the one-for-two share consolidation that will be completed as part of the Reorganization), on a one-for-one basis (subject to certain anti-dilution provisions); or
- (ii) if the offering price of the Class A Common Shares is equal to or less than US\$4.53 or its equivalent (without giving effect to the one-for-two share consolidation that will be completed as part of the Reorganization), then at a rate equal to US\$4.53 divided by the initial public offering price per share.

Prior to closing of the Offering, and as a condition of the closing of the Offering, the Corporation intends to effect a reorganization of its share capital by amending its articles to reclassify the share capital of the Company through the conversion of all of the Class B Common Shares and Class C Preference Shares into Class A Common Shares on the basis of one Class A Common Share for each Class B Common Share and • Class A Common Shares for each Class C Preference Share. The articles of the Company will also be amended to, among other things, delete the Class B Common Shares and the Class C Preference Shares as authorized classes of shares, to rename the Class A Common Shares as Common Shares, to consolidate the Common Shares on a one-for-two basis and to authorize the Company to issue an unlimited number of preferred shares, issuable in one or more series. Outstanding options and other rights to acquire Common Shares will also be adjusted proportionately. Consequently, at the time of the closing of the Offering, the Company will be authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares. As of • , 2005, after giving effect to the Reorganization, there were • Common Shares outstanding. See "Reorganization".

Share Capital at Closing of the Offering

Common Shares

The holders of the Common Shares will be entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one vote in respect of each Common Share held at all such meetings. The holders of the Common Shares will be entitled, at the discretion of the Board of Directors, to receive out of any or all profits or surplus of the Company properly available for the payment of dividends, any dividend declared by the Board of Directors and payable by the Company on the Common Shares. The holders of the Common Shares

will participate ratably in any distribution of the assets of the Company upon the liquidation, dissolution or winding-up of the Company or other distribution of its assets among its shareholders for the purpose of winding up its affairs.

Preferred Shares

The Company will be authorized to issue an unlimited number of preferred shares, which may be issued from time to time in one or more series. The board of directors will be authorized to fix the dividend rights and terms, conversion rights, voting rights, redemption rights and terms, liquidation preferences and any other rights, preferences, privileges and restrictions applicable to each series of preferred shares. At the closing of the Offering there will be no preferred shares outstanding.

Registration Rights Agreement

The Company and certain holders (the “Selling Shareholders”) of approximately • % of the issued and outstanding Common Shares have entered into a registration rights agreement dated July 26, 2004 pursuant to which the Selling Shareholders were granted demand registration rights and piggyback registration rights. Pursuant to the agreement, Selling Shareholders have the right commencing on the date that is nine months after the closing of this Offering or earlier, if agreed to in writing by the board of directors, to request that the Company register or qualify by way of prospectus the shares held by the Selling Shareholders for purposes of effecting an underwritten offering of Common Shares, provided that, among other things, the offering results in aggregate gross proceeds in excess of US\$20 million and certain shareholders of the Company approve such offering. The Selling Shareholders are only entitled to two demand registrations and may only request a demand registration once in any 180 day period. Also, if the Company registers or qualifies its Common Shares by way of prospectus for the purposes of affecting a public offering, the Company must give notice to the Selling Shareholders prior to filing the prospectus for the offering and shall afford each Selling Shareholder an opportunity to include its Common Shares in the offering, including an initial public offering. The registration rights described herein will expire two years from the Closing Date of the Offering. All expenses incurred in connection with an offering (excluding underwriting commissions for the Selling Shareholders) will be borne by the Company.

PRINCIPAL SHAREHOLDERS

The following table shows the name of each person or company who, as at • , 2005, owned of record, or who, to the knowledge of the Company, own beneficially, directly or indirectly, more than 10% of the current shares and the Common Shares of the Company, both before and after giving effect to this Offering and the Reorganization.

<u>Principal Shareholder</u>	<u>Type of Ownership</u>	<u>Before Giving Effect to this Offering and Reorganization</u>		<u>After Giving Effect to this Offering and Reorganization</u>	
		<u>Number of Shares⁽¹⁾</u>	<u>Percentage of Each Class of Shares Outstanding</u>	<u>Number of Common Shares</u>	<u>Percentage of Common Shares Outstanding</u>
HIG Horizon Corp.	Direct	4,001,508 Class A Common Shares	29.02%	•	•
		3,333,327 Class C Preference Shares	22.53%		
Hospitals of Ontario	Direct	3,960,396 Class C Preference Shares	26.77%	•	•
Ventures West 8 Limited Partnership	Direct	3,129,906 Class A Common Shares	22.70%	•	•
		2,607,267 Class C Preference Shares	17.62%		

Note:

- (1) The Class C Preference Shares are currently convertible, at the option of the holder, into Class A Common Shares of the Company at a one to one ratio. The articles of the Company currently provide that in the event of an initial public offering of the Company's Class A Common Shares, the Class C Preference Shares may be converted at the option of the holder into Class A Common Shares on the following basis:
 - (i) if the offering price of the Class A Common Shares is equal to or greater than US\$4.53 or its equivalent (without giving effect to the one for two share consolidation that will be completed as part of the Reorganization), on a one-for-one basis (subject to certain anti-dilution provisions); or

- (ii) if the offering price of the Class A Common Shares is equal to or less than US\$4.53 or its equivalent (without giving effect to the one for two share consolidation that will be completed as part of the Reorganization), then at a rate equal to US\$4.53 divided by the initial public offering price per share.

The Company intends to effect the Reorganization prior to the closing of the Offering. See “Description of Share Capital” and “Reorganization”.

DIVIDEND POLICY

The Company has not to date paid dividends on its Common Shares. The Company’s current intention is to retain earnings to fund the development and growth of its business, and therefore the Company does not anticipate declaring or paying any cash dividends in the near to medium term. The Company’s board of directors will determine if and when dividends should be paid in the future based on all relevant circumstances, including the desirability of financing further growth of the Company and the Company’s financial position at the relevant time.

PRIOR SALES

The following table summarizes the sales of shares of the Company within the twelve month period prior to the date of this prospectus (without giving effect to the Reorganization):

<u>Date</u>	<u>Price per Share</u>	<u>Number and Class of Shares</u>	
July 26, 2004	US\$ 0.301923 ⁽¹⁾	7,131,414	Class A Common Shares ⁽¹⁾
July 26, 2004	US\$ 1.515 ⁽²⁾	5,940,594	Class C Preference Shares ⁽²⁾
November 22, 2004	US\$ 0.301923 ⁽³⁾	1,122,537	Class A Common Shares ⁽³⁾
November 22, 2004	US\$ 1.515 ⁽⁴⁾	935,094	Class C Preference Shares ⁽⁴⁾

Notes:

- (1) On a pro forma basis, after giving effect to the Reorganization, this sale would have been for a total of 3,565,707 Common Shares sold at a price of US\$0.603846 per share.
- (2) On a pro forma basis, after giving effect to the Reorganization, this sale would have been for a total of • Common Shares sold at a price of US\$ • per share.
- (3) On a pro forma basis, after giving effect to the Reorganization, this sale would have been for a total of 561,268.5 Common Shares sold at a price of US\$0.603846 per share.
- (4) On a pro forma basis, after giving effect to the Reorganization, this sale would have been for a total of • Common Shares sold at a price of US\$ • per share.

REORGANIZATION

Prior to closing of the Offering, and as a condition of the closing of the Offering, the articles of the Company will be amended to reclassify the share capital of the Company through the conversion of all of the Class B Common Shares and Class C Preference Shares into Class A Common Shares on the basis of one Class A Common Share for each Class B Common Share and • Class A Common Shares for each Class C Preference Share. The articles of the Company will also be amended to, among other things, delete the Class B Common Shares and the Class C Preference Shares as authorized classes of shares, to rename the Class A Common Shares as Common Shares, to consolidate the Common Shares on a one-for-two basis and to authorize the Company to issue an unlimited number of preferred shares, issuable in one or more series. Outstanding options and other rights to acquire Common Shares will also be adjusted proportionately. Consequently, at the time of the closing of the Offering, the Company will be authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares. As of • , 2005, after giving effect to the Reorganization, there were • Common Shares outstanding. Except as otherwise noted, the information in this prospectus, including all information about the Company’s outstanding share capital dated within 30 days of this prospectus, assumes the completion of the Reorganization.

PLAN OF DISTRIBUTION

Under the underwriting agreement, the Company has agreed to sell and RBC Dominion Securities Inc., TD Securities Inc., GMP Securities Ltd., Orion Securities Inc. and Scotia Capital Inc. have severally agreed in the proportions set out in the underwriting agreement to purchase on the closing date, being • , 2005 or such later date as may be agreed between the parties, but not later than • , 2005, an aggregate of • Common Shares at a purchase price of \$ • per Common Share, for an aggregate consideration of \$ • , payable in cash to the Company against delivery of a global certificate representing the Common Shares offered hereunder. Certain current shareholders of the Company, who collectively own approximately • % of the outstanding Common Shares (• % on a fully diluted basis), have indicated their intention to purchase approximately • of the Common Shares offered pursuant to this Offering at the offering price. No commission will be paid by the Company to the Underwriters for the Common Shares purchased by these shareholders.

The Company has agreed to pay the Underwriters a fee of \$ • per Common Share purchased by the Underwriters (but excluding, for greater certainty, the Common Shares purchased by the current shareholders) being an aggregate of \$ • .

There is currently no market through which the Common Shares may be sold, and accordingly the terms of the Offering, including the offering price of the Common Shares, will be determined by negotiation between the Company and the Underwriters.

The obligations of the Underwriters under the underwriting agreement are conditional and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated in certain stated circumstances and upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Common Shares if any Common Shares are purchased under the underwriting agreement.

Subscriptions for Common Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

The Company has granted to the Underwriters an over-allotment option exercisable for a period of 30 days from the closing of the Offering to purchase up to a total of • additional Common Shares on the same terms as set out above solely to cover over allotments, if any. If the over-allotment option is exercised in full, the total “Price to the Public”, “Underwriters’ Fee” and “Net Proceeds to the Company” will be \$ • , \$ • and \$ • , respectively. This prospectus qualifies the grant of the over-allotment option and the issuance of the Common Shares issuable on the exercise of the over-allotment option.

The Company has agreed with the Underwriters that, subject to certain exceptions such as in connection with future acquisitions, the Company will not, during the period ending 180 days after the closing date, issue, offer, sell or contract to sell any Common Shares of the Company or publicly disclose the intention to make any such issue, offer or sale without the prior consent of the Underwriters, such consent not to be unreasonably withheld.

The Common Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or the securities laws of any state in the United States. These securities may not be offered or sold or otherwise transferred or disposed of within the United States without registration unless an exemption from registration is available. The Underwriters have agreed not to offer or sell the Common Shares in the United States without registration under the U.S. Securities Act and applicable state securities laws except to certain institutional purchasers in transactions that comply with the exemption from registration set forth in Rule 144A under the U.S. Securities Act. In addition, until 40 days after the date of this prospectus, any offer or sale of the Common Shares in the United States by any dealer, whether or not participating in the Offering, may violate the registration provisions of the U.S. Securities Act unless made in compliance with Rule 144A thereunder.

The Company has agreed to indemnify the Underwriters and their affiliates, directors, officers, employees and agents against certain liabilities, including, without restriction, civil liabilities under Canadian provincial and territorial securities legislation, or to contribute to any payments the Underwriters may be required to make in respect thereof.

As a result of its role in a previous financing, TD Securities Inc. is a holder of warrants to acquire Common Shares of the Company. Accordingly, in connection with this Offering, the Company may be considered to be a connected issuer of TD Securities Inc. under applicable securities laws.

Pursuant to policy statements of the relevant securities commissions, the Underwriters may not, throughout the period of distribution, bid for or purchase any Common Shares. The policy statements allow certain exceptions to the foregoing prohibitions. The Underwriters may only avail themselves of such exceptions on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of the Toronto Stock Exchange relating to market completion and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable laws, the Underwriters may, in connection with the Offering over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

All persons, companies or other entities that will hold 1% or more of the Common Shares and/or options of the Company on the completion of the Reorganization and each of the officers and directors of the Company will enter into lock-up agreements with the Underwriters whereby such shareholders and/or option holders will agree not to, directly or indirectly, without the prior consent of the Underwriters acting reasonably, sell, or enter into any agreement to sell, their Common Shares for a period of six months following the closing of the Offering (in the case of one-half of their Common Shares) and for a period of one year following the closing of the Offering (in the case of the balance of their Common Shares). The holders of • Common Shares and the holders of • options representing, in the aggregate, (• % of the outstanding Common Shares on a fully diluted basis after giving effect to the Offering and the Reorganization), have agreed to enter into these agreements. The foregoing shall not include or apply to any Common Shares acquired by such shareholder as part of this Offering.

RISK FACTORS

An investment in the Common Shares of the Company involves a number of risks. In addition to the other information contained in this prospectus, prospective purchasers should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this prospectus. Any of the matters highlighted in these risk factors could have a material adverse effect on the Company's results of operations, business prospects or financial condition.

Risks Related to Novadaq's Business

Shift from Research and Development to Commercialization

Having been founded in 2000, the Company has a limited operating history. Historically, the focus of its operations had been on research and development. However, the Company is shifting its focus towards commercialization. The successful commercialization of Novadaq's products will depend on a number of financial, logistical, technical, legal, regulatory, competitive, economic and other factors, the outcome of which cannot be predicted and some of which will be out of the Company's control. The Company has incurred losses to date and expects to incur losses in the future. There can be no assurance that the Company will be able to achieve or sustain profitability in the future.

Successful Commercialization of the SPY System

The Company's future success will depend in large part on its ability to market and sell the SPY System. Successful commercialization of the SPY System will depend on a number of factors, including achieving widespread adoption of the SPY System among cardiac surgeons and hospitals, maintaining the Company's relationships with its suppliers, obtaining sufficient quantities of components for the SPY System, including ICG that has been approved for sale in the United States, establishing adequate sales and marketing capabilities, and the ability of the Company to successfully market the SPY System procedure at its projected selling price. There can be no assurance that the Company will be successful in this regard. Successful commercialization will also depend on whether any adverse effects result from use of the SPY System or unfavourable publicity develops in respect of the SPY System, as well as the emergence of new or existing products as competition for the SPY System, which are proven to be more effective or more cost-effective.

Implementation of Procedural-Based Fee Model

The Company's current business plan is predicated upon a successful implementation of a procedure-based fee model for the SPY System. The hospitals and clinics that are expected to be the end-users of the SPY System may resist such a fee model and prefer to make capital purchases of the SPY System. Such a failure to implement the procedure-based fee model or to achieve the anticipated pricing for the procedure could adversely impact the Company's revenues and financial condition.

Dependence on Suppliers

Novadaq is currently dependent on a single supplier in the United States for ICG, Akorn, Inc., and there is no guarantee that alternative sources for ICG may be found. Such unavailability could adversely affect Novadaq's ability to sell its devices.

Novadaq could in the future potentially choose to manufacture a generic form of ICG. However, there is no guarantee that Novadaq would be successful in manufacturing a generic form of ICG, or that such generic ICG, if successfully manufactured, would be approved by the FDA for use in the United States. Novadaq's potential success in the manufacturing of a generic form of ICG may be further complicated by the fact that the chemicals required to manufacture ICG are no longer in routine use in North America or Europe. Accordingly, Novadaq may have difficulty obtaining a North American or European contract manufacturer who will have the ability to produce the ingredients of ICG. There are several off shore producers who can supply the ingredients for ICG, but these suppliers may not have the capability to manufacture in facilities that meet current Good Manufacturing Practices established by the FDA. Consequently, Novadaq may not be able to source the necessary active ingredients from an off shore supplier.

Novadaq has entered into arrangements with a single supplier to manufacture the SPY intra-operative imaging device, as well as the imaging and treatment device used in the OPTTX System, and also relies on a single supplier for the manufacture of the custom sterile drape that forms part of the SPY Kit. Novadaq has no written supply agreement

with the supplier of custom drapes, and purchases by way of individual purchase order. Should any supplier fail to supply the necessary products, Novadaq's business, financial condition and results of operations may be adversely affected.

Novadaq relied on a single software developer to develop the proprietary software used in the operation of the SPY System and the OPTTX System. If any modifications or improvements are required to be made to the software, it may be necessary to qualify additional software developers. This process may be expensive and time consuming and may have an adverse impact on Novadaq's business, financial condition and results of operations.

Novadaq will be dependent on its suppliers to manufacture products in accordance with FDA and other regulatory requirements. The FDA may inspect these suppliers and if they are found not to be in regulatory compliance, they may be the subject of regulatory action, which could adversely affect a supplier's ability to provide product to the Company. Novadaq does not control the manufacturing processes of its suppliers. If current manufacturing processes are modified, or the source or location of its product supply is changed, voluntarily or involuntarily, the FDA will require Novadaq to demonstrate that the products produced from the modified or new process or facility are equivalent to the products previously cleared or approved. Any such modifications to the manufacturing process or supply may not achieve or maintain compliance with the applicable regulatory requirements. In many cases, prior approval by regulatory authorities may be required before any changes can be made, which may adversely affect the Company's business.

Regulatory Matters

Products intended for diagnostic and therapeutic use for humans are governed by a wide array of regulatory agencies. For most of these products, applicable regulations require testing and government review and approval prior to marketing the product. This procedure can take a number of years and involves the expenditure of substantial resources. Any failure or delay by the Company to obtain regulatory approvals or clearances could adversely affect the marketing of any products developed by it and its ability to receive product revenue. There can be no assurance that any of the Company's planned products will be approved by any regulatory agency on a timely basis, or at all.

In the event that a regulatory authority revokes any approvals granted in respect of the Company's products, the Company's business, financial condition and results of operations could be adversely affected.

If a device or combination product (combination of a device and drug) developed by the Company is considered to have a primary mode of action that is pharmacologically based, then the primary oversight for regulatory approval may be the CDER branch of the FDA. There is a possibility that the OPTTX System will be considered to have a primary mode of action that is pharmacologically based. Whether the FDA's CDER or CDRH branch has primary responsibility for reviewing the product, if the FDA (or regulators in other jurisdictions) deems the use of ICG in this clinical application to be either a new use or to introduce unknown safety issues, it may request that a pivotal safety study be conducted to support its use with photocoagulation in patients with Wet AMD. The Company would have to work closely with the FDA to determine the parameters of the prospective trial, but management would expect the FDA to require the study to include a minimum of 500 patients with a follow up post-treatment of two years. If the FDA were to require the trial to compare the OPTTX System to the current standard of care (PDT) the trial might be limited to just those patients with classic, minimally classic and predominantly classic lesions, which would increase the costs of such trial considerably. The clinical study duration is likely to exceed 36 to 42 months given recruitment challenges and the required post-treatment follow up.

If the FDA were to require the Company to submit a SNDA for the OPTTX System, the application would be reviewed by both CDER and CDRH, with the lead review division being CDER. By statute, FDA must review a SNDA within one hundred eighty (180) days, but the review times are typically extended to between ten months and three years from filing. The filing cost for a SNDA with clinical and quality data is currently approximately US\$672,000, with fees increasing on an annual basis. If the FDA deems that a SNDA is required for the OPTTX System, the clinical trial will need to be conducted with the second-generation device.

The cost of conducting studies to support and submit a SNDA is substantial. Management believes that, if the FDA deems the OPTTX System a combination product, the regulatory approval of the OPTTX System will be delayed by at least two years beyond what would be required for a PMA. If a SNDA is required for the OPTTX System, management may choose to partner with a larger organization to minimize or defer the costs of the approval process.

Numerous statutes and regulations govern the manufacture and sale of medical device and pharmaceutical products in Canada, the United States and other countries where the Company intends to market its products. Such laws and regulations govern, among other things, the approval of manufacturing facilities, testing procedures and controlled research, pre-clinical and clinical data required prior to and after marketing approval, Good Manufacturing Practices compliance affecting production and storage, the advertising and labeling of products, the reporting of adverse events, and special issues associated with the manufacture and use of laser products. Failure to comply with statutes and regulations administered could result in warning letters, fines and other civil penalties, unanticipated expenditures, withdrawal of regulatory approval, delays in approving or refusing to approve a product, product recall or seizure, interruption of production, operating restrictions, injunctions or criminal sanctions. The Company and its suppliers are also subject to numerous federal, state, provincial and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. In addition, advertising and promotional materials relating to medical devices are, in certain instances, subject to regulation by the Federal Trade Commission in the United States and equivalent regulators in other jurisdictions. Novadaq and its manufacturers and suppliers may be required to incur significant costs to comply with such laws and regulations in the future, and such laws and regulations may have an adverse effect on the Company's business. The failure of Novadaq or its manufacturers and suppliers to comply with current or unanticipated changes in existing regulatory requirements could materially harm the Company's business. Furthermore, there can be no assurance that Novadaq's manufacturers and suppliers will continue to comply with regulatory requirements, including Good Manufacturing Practices. In such circumstances, the Company may be adversely affected.

The global regulatory environment is ever evolving with changes to regulations, standards, guidelines, establishment of new Health Authorities and/or mergers of divisions within them. Novadaq's existing or future regulatory clearances or approvals may be affected as a result of such changes or reorganization.

In addition, the Company must comply with federal and state health care anti-kickback laws and other health care fraud and abuse laws that affect the marketing of devices and pharmaceuticals. Failure to comply with applicable laws and regulations could subject the Company to administrative or judicial enforcement actions including but not limited to product seizures, recalls, injunctions, civil penalties, criminal prosecution, refusals to approve new products or withdrawal of existing approvals, as well as increased product liability exposure, any of which could have a material adverse effect on the Company's business, financial condition or results of operations.

Status of Healthcare Reimbursement

The Company's ability to commercialize products successfully may depend in part on the extent to which reimbursement for the cost of such products and related treatments will be available from government health administration authorities, private health coverage insurers and other organizations. Third-party payers are increasingly challenging the price of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products and there can be no assurance that adequate third-party coverage will be available to establish price levels sufficient for the Company to realize an appropriate return on its investment in product development.

Patent Protection and Trade Secrets

The Company's success depends, in part, on its ability to secure and protect its patents, trade secrets, trademarks and other intellectual property rights and to operate without infringing on the proprietary rights of others or having third parties circumvent the rights that it owns or licenses. In particular, patents that it owns and licenses may not be valid and the Company may not be able to successfully obtain and enforce patents and maintain trade secret protection for its technology. The extent to which it is unable to do so could materially harm its business.

Novadaq has applied for and is actively pursuing patents relating to the technology used in its proprietary imaging platform in jurisdictions including the United States, Europe, Japan, Canada, Australia, Brazil, China, India and South Korea. Such applications may not result in the issuance of any patents, and any patents now held or that may be issued may not provide the Company with adequate protection from competition. Furthermore, it is possible that patents issued or licensed to Novadaq may be challenged successfully by third parties in patent litigation. It is also possible for others to develop products which have the same effect as the Company's products on an independent basis or to design around products that it has patented. In either event, if Novadaq is unable to secure or to continue to maintain a preferred position, the SPY System and the OPTTX System could become subject to competition from the sale of generic or equivalent products.

Patents issued or licensed to the Company may be infringed by the products or processes of others. The cost of enforcing patent rights against infringers, if such infringement is required, could be significant, and the time demands could interfere with the Company's normal operations. There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical, biotechnology and medical technology industries. The Company may become a party to patent litigation and other proceedings. The cost to the Company of any patent litigation, even if resolved in its favour, could be substantial. Some of the Company's competitors may be able to sustain the costs of such litigation more effectively than Novadaq can because of their substantially greater financial resources. Litigation may also absorb significant management time.

Unpatented trade secrets, technological innovation and confidential know-how are important to Novadaq's scientific and commercial success. Although the Company seeks to protect its proprietary information through confidentiality agreements and other appropriate means, these measures may not effectively prevent disclosure of the Company's proprietary information, and, in any event, the Company cannot provide assurances that others will not independently develop the same or similar information or gain access to the same or similar information.

Third-Party Intellectual Property Infringement Claims

Patent applications which may relate or affect the Company's business may have been filed by other health care, medical device, biopharmaceutical companies and universities. Such patent applications or patents may conflict with the Company's technologies or patent applications and such conflict could reduce the scope of patent protection which the Company could otherwise obtain or even lead to refusal of the Company's patent applications. Novadaq could also become involved in interference proceedings in connection with one or more of its patents or patent applications to determine priority of invention.

It is not possible for the Company to be certain that it is the creator of inventions covered by pending patent applications or that it was the first to file patent applications for any such inventions. No assurance can be given that the Company's patents, once issued, would be declared by a court to be valid or enforceable, or that a competitor's technology or product would be found to infringe the Company's products. In the event that a court was to find the Company to be infringing upon a valid patent of a third party, the Company might have to pay license fees and/or damages and might be enjoined from conducting certain activities.

There is no assurance that the Company could enter into licensing arrangements at a reasonable cost, or develop or obtain alternative technology in respect of patents issued to third parties that incidentally cover the Company's products. Any inability to secure licenses or alternative technology could result in delays in the introduction of some of the Company's products or even lead to prohibition of the development, manufacture or sale of certain products by it.

Reliance on Key Personnel

The Company is dependent on certain members of its management and scientific staff, and the loss of the services of one or more of these individuals could adversely affect the Company. In addition, Novadaq will need to expand its management and employee base to commercialize the SPY System. The Company's future financial performance, its ability to commercialize the SPY System and to compete effectively will depend, in part, on its ability to manage any future growth effectively. The Company's ability to manage growth will require it to continue to implement and improve its administrative, accounting and management systems and to recruit, integrate and train new employees, including additional management, administrative, distribution, sales and marketing personnel. Although the Company has done so in the past and expects to be able to do so in the future, there can be no assurance that the Company will successfully be able to attract and retain skilled and experienced personnel.

Research and Development Risk

A principal component of Novadaq's business strategy is to expand its product offering to fully exploit its underlying imaging platform. As such, Novadaq's organic growth and long-term success is partially dependent on its ability to successfully develop and market new products. Accordingly, Novadaq will likely incur significant research and development expenditures. However, there is no certainty that any investment in research and development will yield technically feasible or commercially viable products. Product development is subject to regulatory overview and approval at significant costs. Failure to introduce new products, or failure or delays in obtaining regulatory approval could materially and adversely affect Novadaq's operations and financial condition.

Novadaq's Business is Predicated on Licensed Technology

Novadaq's business is predicated on licensed technology and intellectual property. For example, the technology and intellectual property rights that form the basis for both the SPY System and the OPTTX System are licensed from third parties. This subjects Novadaq to certain risks that would not be present had Novadaq developed the technology and intellectual property independently. Specifically, license agreements typically subject Novadaq to milestone obligations and royalty payments. Some of these obligations may be substantial and may obligate the Company to obtain certain regulatory approvals by a specified date or exercise diligence in bringing potential products to market. The failure to meet these obligations typically results in the termination of the license and the loss of rights to the technology. Any such termination could have an adverse impact on Novadaq's business.

In addition, in many third party licenses, Novadaq has no control over the prosecution of patents and other intellectual property rights underlying such licenses. As a result, Novadaq is dependent on the licensor to diligently pursue and prosecute these intellectual property rights. In such a circumstance, the licensor may not have sufficient incentive to diligently pursue such protection. The failure of the licensor to diligently pursue such protection could adversely impact Novadaq's business.

Additionally, Novadaq typically only receives the benefit of intellectual property protection under these licenses in those jurisdictions where applications for protection are filed. As a result, the failure of the licensor to file applications for protection in all jurisdictions where the Company intends to conduct business could undercut the ability of the Company to successfully carry on business in these jurisdictions. This could adversely affect the Company's business.

Finally, many third party licenses of technology expire when the patents underlying the technology expire or at some period of time after expiration. As a result, the ability of Novadaq to exploit and fully commercialize the technology over time may be limited. This may adversely impact Novadaq's business.

Growth of the Practice of Feeder Vessel Therapy as a Treatment of Wet AMD

Only a small number of retinal specialists currently perform feeder vessel therapy. While the Company believes that the innovations of the OPTTX System will make feeder vessel therapy practical and easier to perform, there can be no assurance that there will be widespread customer acceptance or demand for the OPTTX System or that feeder vessel therapy will become a widely practiced treatment for Wet AMD. If retinal specialists fail to adopt the OPTTX System as an accepted treatment for Wet AMD, the Company's business and financial condition may be adversely affected.

Clinical Trials of the OPTTX System May be Unsuccessful

A limited number of early trials have been conducted with the OPTTX System. Management believes that the results of these trials, although not large, suggest that feeder vessel therapy with the OPTTX System is a relatively effective and safe treatment for Wet AMD. However, these early trials may not necessarily predict the results of larger trials and positive results in early trials might not be seen in later trials as later trials may produce differing results without the same trial design features, such as randomized controls and long-term patient follow-up and analysis. Additionally, clinical trials may fail to produce results satisfactory to the FDA or foreign regulatory authorities. Any such outcomes would adversely affect the Company's ability to introduce new products and generate revenue.

Potential Product Liability

Medical products involve an inherent risk of product liability claims and associated adverse publicity. Novadaq currently maintains liability insurance coverage in the aggregate amount of US\$10 million. While the Company believes such insurance coverage to be adequate, there is no guarantee that future claims based on product liability will not exceed such amounts. In addition, should it prove impossible to obtain this type of insurance at reasonable rates or to otherwise protect the Company against potential liability proceedings, Novadaq could be required to cease the commercialization of products that it has developed or even be prevented from beginning the commercialization of new products. The Company's obligation to pay indemnities or to withdraw a product following complaints could seriously affect its financial position as well as its future.

Market Competition and Technological Advances

The technology of the medical diagnostic and treatment industry is evolving rapidly. There is also intense competition within the industry. In addition to current products, additional products may be introduced to compete with those of the Company. Some of these products may use entirely different approaches or means to obtain diagnostic or

therapeutic results, which could be more effective or less expensive than those products being developed and/or commercialized by Novadaq, or its competitors, for similar indications. Moreover, many competitors, both current and potential, have considerably greater resources at their disposal than Novadaq has in terms of technology, manufacturing, product development, marketing, distribution, sales, commercialization, capital resources and human resources. Many competitors have more experience in conducting clinical trials and in obtaining domestic and foreign regulatory approvals. Therefore there can be no assurance that the Company can successfully compete with present or potential competitors or that such intense competition will not have a materially adverse effect on Novadaq's business, financial condition or results of operations.

Additionally, since the Company's products are designed to diagnose and treat specific medical conditions, it is possible that medical or scientific advances with respect to the treatment of these conditions could render the Company's products obsolete. For example, the cause of Wet AMD is not currently known. If subsequent medical research determines the cause of Wet AMD, then it is possible that a competitor may develop a treatment for the disease that would make the Company's OPTTX System obsolete. The development of any such treatment would have an adverse effect on the business and financial condition of the Company.

Foreign Exchange Fluctuations

The Company generates a significant portion of its sales in US dollars and reports its operations in US dollars but a portion of the Company's expenses are denominated in Canadian dollars. As such, the Company is exposed to fluctuations in the exchange rate between the US dollar and the Canadian dollar as a result of the translation into US dollars of its expenses denominated in Canadian dollars.

Risks Related to the Offering

Use of Proceeds

Novadaq will have broad discretion concerning the use of the proceeds of this Offering as well as the timing of their expenditure. As a result, investors will be relying on the judgment of management for the effective use of the proceeds of this Offering. Management may use the net proceeds of this Offering in ways that investors may not consider desirable. The results and the effectiveness of the investment of the proceeds of this Offering are uncertain. If the proceeds are not applied effectively, the results of our operations may suffer.

Volatility of Share Price

Market prices for shares of companies such as Novadaq are often volatile. Factors such as regulatory developments regarding Novadaq's products or processes, developments regarding potential or future third-party collaborators, announcements of technological innovations, new commercial products, patents, the development of proprietary rights by it or by others or any litigation relating to these rights, regulatory actions, general conditions in the diagnostic, biotechnology or pharmaceutical industries, failure to meet analysts' expectations, publications, financial results, economic conditions in the United States, Canada or abroad, terrorism and other factors could have a significant effect on the share price of the Common Shares. In recent years, the stock of other companies in the medical device, diagnostic, biotechnology and pharmaceutical industries have experienced extreme price fluctuations that have been both related and unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the Common Shares will not experience significant fluctuations in the future.

Absence of Previous Public Market and Determination of Offering Price

Prior to this Offering, there has been no public market for Common Shares, and an active public market for Common Shares may not develop or be sustained after this Offering. If an active public market does not develop, the liquidity of investors' investment may be limited, and the share price may decline below its initial public offering price. The initial public offering price will be determined by negotiation between the Company and the Underwriters and may bear no relationship to the price that will prevail in the public market.

Immediate Dilution

The initial public offering price of Common Shares will significantly exceed the net tangible book value per share of Common Shares. Accordingly, if you purchase Common Shares in this Offering, you will experience immediate and substantial dilution of your investment. If the outstanding options to purchase Common Shares are exercised, you will experience additional dilution.

Future Sales of Common Shares

Sales by shareholders of a substantial number of the Common Shares of the Company in the public market following this Offering could cause the market price of the Common Shares to fall. Sales by shareholders might also make it more difficult for the Company to sell equity securities at a time and price that it deems appropriate. Upon completion of this Offering, the Company will have outstanding

- Common Shares, assuming no exercise of outstanding options or warrants or the Over-Allotment Option granted to the Underwriters. See “Plan of Distribution”.

Of these shares,

- Common Shares will be subject to lock-up agreements between the shareholders and the Underwriters restricting the resale of these shares for a period of six months following completion of this Offering, and
- Common Shares will be subject to lock-up agreements restricting the resale of these shares for a period of one year following completion of this Offering. The Underwriters may release shareholders from their lock-up agreements at any time and without notice, which would allow for earlier sale of shares in the public market. All of the Common Shares offered pursuant to this Offering, plus any Common Shares sold pursuant to the exercise of the Over-Allotment Option, will be freely tradable without restriction under securities legislations in all provinces of Canada.

Dividends

The Company has not to date paid dividends on its Common Shares. The Company’s current intention is to retain earnings to fund the development and growth of its business, and therefore the Company does not anticipate declaring or paying any cash dividends in the near to medium term. The Company’s board of directors will determine if and when dividends should be paid in the future based on all relevant circumstances, including the desirability of financing further growth of the Company and the Company’s financial position at the relevant time. See “Dividend Policy”.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer or shareholder who beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding common shares of the Company or known associate or affiliate of any such person, has or had any material interest, direct or indirect, in any transaction within the last three years or in any proposed transaction, that has materially affected or will materially affect the Company.

LEGAL PROCEEDINGS

Management of the Company is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against the Company or relating to its business which would be material to the Company's financial condition or results of operations.

LEGAL MATTERS

Certain legal matters relating to the Common Shares offered by this prospectus will be passed upon at the Closing Date on behalf of the Company by Stikeman Elliott LLP and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The current auditors of the Company are Ernst & Young LLP, Chartered Accountants at their principal offices in Toronto, Ontario. The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

MATERIAL CONTRACTS

The only material contract entered into by the Company within the past two years, or to which the Company will become a party on or prior to the closing of the Offering, other than in the ordinary course of business, is the underwriting agreement referred to under "Plan of Distribution".

Copies of the underwriting agreement may be examined during normal business hours at the office of the Company at 2585 Skymark Avenue, Suite 306, Mississauga, Ontario, L4W 4L5, during the period of distribution of the Common Shares offered hereby.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

GLOSSARY

In this prospectus, the following terms shall have the meanings set forth below, unless otherwise indicated or the context otherwise requires:

ABBREVIATIONS

AMD	Age-Related Macular Degeneration
CABG	Coronary Artery Bypass Graft
CDER	Center for Drug Evaluation and Research
CDRH	Center for Devices and Radiological Health
CNV	Choroidal Neovascularization
FDA	The United States Food and Drug Administration
FVT	Feeder Vessel Therapy
GCP	Good Clinical Practices
GMP	Good Manufacturing Practices
ICG	Indocyanine Green
IDE	Investigational Device Exemption
NIH	National Institutes of Health
NSR	Non-Significant Risk (device)
nm	nanometer
PDT	Photodynamic Therapy
PMA	Pre-Market Approval
RPE	Retinal Pigment Epithelial
SNDA	Supplemental New Drug Application

TERMS

Age Related Macular Degeneration ..	Destruction and loss of the photoreceptors in the macula region of the retina resulting in decreased central vision and, in advanced cases, blindness.
Angina	Chest pain that occurs when not enough oxygen is flowing to the heart muscle.
Aorta	The largest artery in the body and the primary blood-supply vessel from the heart.
Atherosclerosis	A condition caused by fatty or calcium deposits in the artery walls causing them to thicken.
Bypass Graft	A vessel taken from one part of the body that is sutured to another place to improve blood flow to the heart (or other organs and tissues) by providing a new route or “bypass” around a section of clogged or diseased artery.
Cardiovascular Surgery	Surgery performed on the blood pumping and transporting structure system, including the heart, arteries, veins, and capillaries.

Catheterization	A diagnostic procedure in which a tiny, hollow tube (catheter) is inserted into an artery located on the surface of the heart through which contrast is injected in order to image the coronary arteries.
Cauterize	To destroy tissue through the application of heat, cold, or caustic substances, usually to seal off blood vessels or ducts.
Choroidal Neovascularization	The growth of new blood vessels that originate from the choroid through a break in Bruch's membrane into the sub-retinal pigment epithelium.
Choroidal Vasculature	The blood vessels serving the choroid.
Coronary Artery Bypass Graft	A surgical procedure in which a healthy vessel is removed from another part of the body and is attached to the aorta on one end and to a native coronary of the heart on the other end to replace or bypass a blockage in a diseased vessel.
Coronary Artery Disease	A narrowing of the inside diameter of arteries that supply the heart with blood resulting from atherosclerosis.
Coronary Arteries	The arteries that provide blood to the heart muscle which arise from the aorta and arch down over the surface of the heart.
Coronary Vasculature	The blood vessels associated with the heart.
Classic CNV	Appears as a well demarcated area of hyperfluorescence in a fluorescein angiogram.
Diagnostic	Relating to and aiding in the identification of a disease.
Epidemiological	Pertaining to the study of the incidence, control, and spread of disease in a population.
Extrafoveal Lesion	A lesion that is away from the fovea.
Feeder Vessel Therapy	The use of a laser to destroy the vessels that supply blood to the choroidal neovascularization.
Fovea	The concave center of the retina which provides the highest visual acuity and highest cone cell density.
Indocyanine Green	An imaging agent that is a water-soluble tricarbo-cyanine dye.
Intra-operative	During the course of a surgical operation.
Ionizing Radiation	Electromagnetic radiation or particulate radiation capable of producing ions, directly or indirectly, in its passage through matter.
Juxtafoveal Lesion	A lesion that is close to the fovea.
Macula	The central portion of the retina that contains a dense concentration of cone photoreceptor cells that helps us see fine visual detail and color vision.
Myocardial Infarction (Heart Attack)	Occurs when one or more regions of the heart muscle experience a severe or prolonged decrease in oxygen supply caused by a blocked blood flow to the heart muscle.
Occult CNV	Appears as a lesion whose boundaries are often poorly defined in a fluorescein angiogram.
Ophthalmic Diseases	Diseases which pertain to the eye.
OPTTX	A device for the diagnosis and treatment of Wet AMD.

Phi-motion software	Software that allows surgeons to identify the direction of flow and segregate arteries from veins.
Photodynamic Therapy	Therapy that consists of a light-activated drug injected into the patient's bloodstream and preferentially collects in areas of new blood vessel growth. Once this drug is administered, a surgeon aims a low-intensity or "cool" laser at the area of blood vessel growth. The laser activates the drug, which then destroys the leaky blood vessels. Since the drug is confined within the blood vessel, the laser treatment mainly targets the vessel and does not harm the overlying retinal tissue.
Retina	The retina is the light-sensitive layer of tissue that lines the back of the eyeball, sending visual impulses through the optic nerve to the brain.
SPY Kit	A kit containing the consumable components used in the SPY System imaging procedure, including a custom sterile drape and/or a supply of ICG.
SPY System	An imaging system made up of the SPY intra-operative imaging device and the SPY Kit.
Subfoveal Lesion	A lesion that is beneath the geometric centre of the foveal avascular zone.
Therapeutic Procedures	A procedure that treats a disease or injury.
Thermal Laser Treatment	A treatment involving a laser that generates heat.
Vascular Disease	A disease of the blood vessels.
X-Ray	Form of radiation used to create a picture of internal body structures on film.
X-ray Angiography	An x-ray that uses dye injected into the coronary arteries to study blood circulation through the vessels allowing physicians to measure the degrees of obstruction to blood flow.

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AUDITORS' CONSENT

We have read the prospectus of Novadaq Technologies Inc. (the "Company") dated • , 2005 qualifying the sale and distribution of common shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of the Company on the balance sheets as at December 31, 2004 and 2003 and the statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2004. Our report is dated April 20, 2005, except as to Note • , which is at • , 2005.

Toronto, Canada
• , 2005

Chartered Accountants

AUDITORS' REPORT

To the Directors of
NOVADAQ TECHNOLOGIES INC.

We have audited the balance sheets of **Novadaq Technologies Inc.** as at December 31, 2004 and 2003 and the statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
April 20, 2005, except as to note 13,
which is as of • , 2005

Chartered Accountants

NOVADAQ TECHNOLOGIES INC.
Incorporated under the laws of Canada

BALANCE SHEETS
[expressed in U.S.\$]

	As at March 31, 2005	As at December 31, 2004	2003
	\$ (unaudited)	\$	\$ [restated - note 2]
ASSETS			
Current			
Cash and cash equivalents	615,382	434,380	147,790
Short-term investments	9,025,685	8,963,894	1,738,657
Accounts receivable	1,653	1,082,659	213,000
Investment tax credits receivable	39,749	54,468	69,418
Prepaid expenses and other receivables [note 9]	56,039	58,644	173,702
Inventory	74,982	65,529	294,164
Total current assets	<u>9,813,490</u>	<u>10,659,574</u>	<u>2,636,731</u>
Property, plant and equipment, net [note 3]	43,036	41,542	58,083
Deferred charges	203,087	19,015	26,771
Licenses, net [note 4]	<u>3,231,334</u>	<u>3,336,618</u>	<u>3,570,462</u>
	<u>13,290,948</u>	<u>14,056,749</u>	<u>6,292,047</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	783,158	478,692	490,747
Current portion of deferred revenue	<u>37,286</u>	<u>37,286</u>	<u>37,286</u>
Total current liabilities	<u>820,444</u>	<u>515,978</u>	<u>528,033</u>
Deferred revenue	<u>49,868</u>	<u>59,206</u>	<u>96,557</u>
Total liabilities	<u>870,312</u>	<u>575,184</u>	<u>624,590</u>
Commitments and contingencies [note 6]			
Shareholders' equity			
Share capital [note 5]	27,966,017	27,966,017	19,340,935
Contributed surplus [note 5]	2,441,500	2,280,891	319,000
Deficit	<u>(17,986,881)</u>	<u>(16,765,343)</u>	<u>(13,992,478)</u>
Total shareholders' equity	<u>12,420,636</u>	<u>13,481,565</u>	<u>5,667,457</u>
	<u>13,290,948</u>	<u>14,056,749</u>	<u>6,292,047</u>

See accompanying notes

On behalf of the Board:

(signed) Anthony Griffiths
Director

(signed) Aaron Davidson
Director

NOVADAQ TECHNOLOGIES INC.

STATEMENTS OF LOSS AND DEFICIT

[expressed in U.S.\$]

	Three months ended March 31,		Years ended December 31,		
	2005	2004	2004	2003	2002
	(unaudited)			[restated note 2]	
	\$	\$	\$	\$	\$
Revenue	155,418	23,947	1,147,274	332,626	407,079
Cost of sales <i>[note 3]</i>	<u>36,300</u>	<u>17,152</u>	<u>318,543</u>	<u>254,474</u>	<u>186,668</u>
Gross profit	<u>119,118</u>	<u>6,795</u>	<u>828,731</u>	<u>78,152</u>	<u>220,411</u>
Operating expenses					
Sales and marketing	101,732	47,223	247,892	208,162	417,007
Research and development					
<i>[notes 8 and 9]</i>	718,650	355,799	1,277,386	1,473,733	1,549,343
General and administration	433,571	388,030	1,728,321	1,156,428	358,377
Depreciation	8,266	16,914	60,941	106,678	189,163
Amortization	105,283	100,017	408,844	418,868	2,205,670
Write-down of property, plant and equipment	—	—	—	—	168,681
Write-down of acquired technology <i>[note 4(ii)]</i>	—	—	—	—	4,040,000
Loss (gain) on foreign exchange..	<u>7,475</u>	<u>(3,657)</u>	<u>(65,307)</u>	<u>(55,436)</u>	<u>9,923</u>
	<u>1,374,977</u>	<u>904,326</u>	<u>3,658,077</u>	<u>3,308,433</u>	<u>8,938,164</u>
Loss before the following	(1,255,859)	(897,531)	(2,829,346)	(3,230,281)	(8,717,753)
Interest income	<u>34,321</u>	<u>—</u>	<u>56,481</u>	<u>28,351</u>	<u>45,482</u>
Net loss for the period	(1,221,538)	(897,531)	(2,772,865)	(3,201,930)	(8,672,271)
Deficit, beginning of period	<u>(16,765,343)</u>	<u>(13,992,478)</u>	<u>(13,992,478)</u>	<u>(10,790,548)</u>	<u>(2,118,277)</u>
Deficit, end of period	<u>(17,986,881)</u>	<u>(14,890,009)</u>	<u>(16,765,343)</u>	<u>(13,992,478)</u>	<u>(10,790,548)</u>
Basic and fully diluted loss per share <i>[note 5(f) and 13(a)]</i>	<u>\$ (0.08)</u>	<u>\$ (0.05)</u>	<u>\$ (0.16)</u>	<u>\$ (0.18)</u>	<u>\$ (0.52)</u>

See accompanying notes

NOVADAQ TECHNOLOGIES INC.

STATEMENTS OF CASH FLOWS

[expressed in U.S.\$]

	Three months ended		Year ended December 31,		
	March 31,				
	2005	2004	2004	2003	2002
	(unaudited)			restated [note 2]	
	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Net loss for the period	(1,221,538)	(897,531)	(2,772,865)	(3,201,930)	(8,672,271)
Add (deduct) items not involving cash					
Depreciation and amortization	116,887	120,268	482,021	561,140	2,401,507
Loss on disposal of property, plant and equipment	—	—	—	16,201	37,979
Stock option compensation	160,609	170,000	730,741	319,000	—
Write-down of acquired technology [note 4[ii]]	—	—	—	—	4,040,000
Write-down of property, plant and equipment	—	—	—	—	168,681
Non-cash settlement of legal fees [note 5[b]]	—	—	—	—	47,250
	(944,042)	(607,263)	(1,560,103)	(2,305,589)	(1,976,854)
Net change in non-cash working capital balances related to operations [note 10]	1,199,932	157,933	(597,082)	(654,586)	(105,939)
Cash provided by (used in) operating activities	255,890	(449,330)	(2,157,185)	(2,960,175)	(2,082,793)
FINANCING ACTIVITIES					
Issuance of Class A common shares [note 5]	—	—	2,492,061	—	—
Repurchase of Class A common shares [note 5]	—	—	(2,634,590)	—	—
Issuance of Class B common shares [note 5]	—	—	—	400	7,200
Repurchase of Class B common shares [note 5]	—	—	(63,898)	—	—
Issuance of Class C preference shares [note 5]	—	—	10,062,659	—	9,209,887
Cash provided by financing activities	—	—	9,856,232	400	9,217,087
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(13,097)	(31,068)	(12,220)	(5,057)	(288,625)
Purchase of licenses [note 6]	—	—	(175,000)	—	(2,150,000)
Investments in short-term investments, net	(61,791)	456,786	(7,225,237)	3,030,754	(4,769,412)
Cash provided by (used in) investing activities	(74,888)	425,718	(7,412,457)	3,025,697	(7,208,037)
Net increase (decrease) in cash and cash equivalents during the period	181,002	(23,612)	286,590	65,922	(73,743)
Cash and cash equivalents, beginning of period	434,380	147,790	147,790	81,868	155,611
Cash and cash equivalents, end of period	615,382	124,178	434,380	147,790	81,868

See accompanying notes

NOVADAQ TECHNOLOGIES INC.

NOTES TO FINANCIAL STATEMENTS

[expressed in U.S.\$ except as otherwise indicated]

December 31, 2004 and 2003

Information as at March 31, 2005 and for the three month periods ended March 31, 2005
and March 31, 2004 is unaudited

1. Description of Business

Novadaq Technologies Inc. [the "Company"] was incorporated under the Canada Business Corporations Act on April 14, 2000. The Company develops and commercializes medical devices based on its proprietary imaging platform for the diagnosis and treatment of human vascular and ophthalmic diseases. Prior to 2004, the Company was considered to be in the development stage. The Company has since begun shifting its focus to commercialization and has begun earning meaningful product revenue and is no longer considered to be in the development stage.

2. Summary of Significant Accounting Policies and Accounting Change

[a] Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied within the framework of the significant accounting policies summarized below:

Revenue recognition

Revenue is deemed to be realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the customer is fixed or determinable, and collectibility is reasonably assured.

Revenue from medical devices sold is recognized at the time of shipment, provided that the Company has not retained any significant risks of ownership or future obligations with respect to the product shipped.

Revenue earned on contracts sold including multiple deliverables is allocated to each delivered item based on its fair value. The Company recognizes revenue for undelivered items using the residual method. If fair value does not exist for the undelivered items, revenue and costs for the delivered and undelivered items are deferred until all items have been delivered.

Service contracts extending beyond one year are recognized rateably over the term of the contract.

Costs on uncompleted contracts not in excess of revenue are recorded as deferred charges on the balance sheet.

Interest income is recognized on an accrual basis.

Cash and cash equivalents

Cash and cash equivalents comprise only highly liquid investments that are readily convertible to cash with original maturities of less than 90 days. At December 31, 2004 cash balances reflect holdings in current accounts, with an average interest rate of 1.0%. Cash equivalents at December 31, 2003 were comprised of corporate and government bonds with an average interest rate of 0.94%.

Short-term investments

Short-term investments consist of investments in money market funds and other highly liquid assets. They are carried at cost, which approximates market value.

Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis over their estimated useful lives as follows:

Medical devices	3 years
Marketing fixtures	3 years
Computer equipment	2 years
Medical equipment	3 years
Telephone equipment	3 years

Medical devices used to earn revenue on a per procedure basis begin depreciating upon commencement of productive service. During 2004 the Company changed its estimate of the useful life of medical devices from 1-2 years to 3 years. The impact of this change in estimate was not significant in 2004.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts and other receivables and accounts payable and accrued liabilities.

The Company is subject to credit risk with respect to its accounts receivable to the extent that debtors do not meet their obligations and foreign exchange risk with respect to financial instruments denominated in a currency other than the Company's functional currency.

Foreign currency translation

Monetary assets and liabilities denominated in currencies other than the United States dollar [“U.S. dollar”] have been translated into U.S. dollars at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Transactions denominated in a currency other than the U.S. dollar are translated at the exchange rates prevailing at the transaction dates. Exchange gains and losses are included in net loss for the year.

Inventory

Inventory, all of which consists of goods held for resale, is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Licenses

Licenses acquired are recorded at cost and amortized on a straight line basis over the lesser of their useful lives or the life of the underlying patents. Licenses capitalized at December 31, 2004 are amortized to November 2012.

The Company tests intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. This evaluation is performed by comparing the carrying amounts of these assets to the related estimated undiscounted future cash flows. If these cash flows are less than the carrying amount of the asset, then the carrying amount of the asset is written down to its fair value.

Deferred charges

The Company defers direct costs associated with equity financing activities. These costs will be netted against proceeds raised or will be written off in the period in which the Company concludes not to proceed with the related financing.

Research and development

Research costs are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility are capitalized. All development costs incurred to date have been expensed.

Government contributions

The Company makes periodic applications for financial contribution under available government incentive programs. Government contributions relating to research and development are recorded as a reduction of expenses when the related expenditures are incurred.

Investment tax credits

The Company accrues investment tax credits [“ITCs”] for qualifying research and development costs when there is reasonable assurance that the amounts are recoverable. The Company accounts for ITCs relating to research and development expenses as a deduction in the statement of loss and deficit and those relating to capital expenditures as a reduction of the cost of the asset acquired.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the respective tax bases of assets and liabilities, measured using substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are provided if it is more likely than not that some or all of the future tax assets will not be realized.

Use of estimates

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

Stock-based compensation plan

The Company from time to time issues stock options to employees, directors, officers and consultants as described in note 5[e]. The Company has adopted the recommendations of Section 3870 of The Canadian Institute of Chartered Accountants’ Handbook, “*Stock-Based Compensation and Other Stock-Based Payments*”. Options granted to employees are valued at the grant date using the Black-Scholes option pricing model. The value of the options is expensed over the vesting period. Options granted to non-employees are valued at the grant date using the Black-Scholes option pricing model. The options are expensed at the earlier of when goods have been received or services performed, or when the options have fully vested.

[b] Change in Accounting Policy

Stock-based compensation

The Company has changed its accounting policy with regards to how it values stock options granted to employees and non-employees. Prior to 2004, the Company calculated the value of the options using the minimum value method. In 2004, the Company changed its method of valuing stock options to use a market volatility rate. This change has been made retroactively.

The effect of this change on the financial statements for the prior year are as follows:

	<u>2003</u>
	\$
Net loss for the year ended December 31, 2003	(3,051,930)
Increase in general and administration expenses	<u>(150,000)</u>
Net loss as restated	<u><u>(3,201,930)</u></u>

	<u>2003</u>
	\$
Contributed surplus as at December 31, 2003	189,000
Change in accounting policy	<u>150,000</u>
Contributed surplus as restated	<u><u>319,000</u></u>

If the change in accounting policy had not been adopted, the impact for the year ended December 31, 2004 would have been as follows: net loss for the year and the contributed surplus would both have decreased by \$470,000 and general and administration expenses would have decreased by \$470,000.

3. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	<u>March 31, 2005</u>		
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	\$	\$	\$
Medical devices	300,371	279,822	20,549
Marketing fixtures	44,119	44,119	0
Computer equipment	57,620	40,012	17,608
Medical equipment	15,960	14,845	1,115
Telephone equipment	10,989	7,225	3,764
	<u>429,059</u>	<u>386,023</u>	<u>43,036</u>

	<u>December 31, 2004</u>		
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	\$	\$	\$
Medical devices	300,371	272,601	27,770
Marketing fixtures	44,119	43,699	420
Computer equipment	48,391	37,366	11,025
Medical equipment	15,960	13,826	2,134
Telephone equipment	7,121	6,928	193
	<u>415,962</u>	<u>374,420</u>	<u>41,542</u>

	<u>December 31, 2003</u>		
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	\$	\$	\$
Medical devices	317,899	282,969	34,930
Marketing fixtures	44,119	39,253	4,866
Computer equipment	36,171	25,749	10,422
Medical equipment	15,960	8,817	7,143
Telephone equipment	7,121	6,399	722
	<u>421,270</u>	<u>363,187</u>	<u>58,083</u>

As at March 31, 2005, medical devices included assets with a net book value of \$8,899 [December 31, 2004 — \$12,236; December 31, 2003 — \$11,123; December 31, 2002 — \$73,414] from which revenue of \$0 was earned on a per procedure basis in the three months ended March 31, 2005 [three months ended March 31, 2004 — \$0; year ended December 31, 2004 — \$5,250; year ended December 31, 2003 — \$6,374; year ended December 31, 2002 — \$17,443]. For the period ended March 31, 2005, depreciation expense of \$3,337 [year ended December 31, 2004 — \$12,236; year ended December 31, 2003 — \$35,594; year ended December 31, 2002 — \$15,557] for medical devices used to earn

procedural revenue was included in cost of sales. During the year ended December 31, 2003, two of the medical devices, having a net book value of \$26,696, were no longer being used on a procedural basis and were transferred to inventory.

4. Licenses

Licenses consist of the following:

March 31, 2005		
	Cost	Accumulated amortization
	\$	\$
Licenses [i]	<u>4,350,000</u>	<u>1,118,666</u>
		<u>3,231,334</u>
December 31, 2004		
	Cost	Accumulated amortization
	\$	\$
Licenses [i]	<u>4,350,000</u>	<u>1,013,382</u>
		<u>3,336,618</u>
December 31, 2003		
	Cost	Accumulated amortization
	\$	\$
Licenses [i]	<u>4,175,000</u>	<u>604,538</u>
		<u>3,570,462</u>

[i] The Company has purchased licenses to patented technologies in order to commercially develop, manufacture, use and distribute products and processes. To maintain the rights conferred by these licenses, the Company may be obligated to make future payments [note 6].

[ii] In 2002, the Company wrote down the acquired technology relating to its Cardiac business unit to nil as a decision had been made to suspend all direct sales and marketing activities relating to the business and to limit further investment to product development.

5. Share Capital

[a] Authorized

Unlimited number of voting Class A common shares.

Unlimited number of non-voting Class B common shares, convertible into Class A common shares on a one-for-one basis at the option of the Company.

Unlimited number of voting Class C preference shares, convertible at the option of the shareholder, at the conversion rate in effect on the date of conversion, into fully paid Class A common shares. In the event the Company undertakes an initial public offering of its Class A common shares, or obtains a listing or quotation of the Class A common shares on a recognized major North American stock exchange or quotation system, and the initial public offering price, listing or quotation price, as the case may be, is equal to or greater than \$4.53, the conversion rate shall be one-for-one. If the initial public offering price, listing or quotation price, as the case may be, is less than \$4.53, the conversion rate shall be the number equal to \$4.53 divided by the initial public offering price, listing or quotation price, as the case may be, per share.

In the event of liquidation, the proceeds shall be distributed firstly to the holders of Class C preference shares up to an aggregate of three times the stated capital of the Class C preference shares, on a share-for-share basis.

[b] Issued and outstanding and changes during the year

	Class A common		Class B common		Class C preference		Total
	Number of shares	Consideration	Number of shares	Consideration	Number of shares	Consideration	
	#	\$	#	\$	#	\$	\$
Balance, December 31, 2001	12,000,000	200	352,433	515,998	1,320,132	2,000,000	2,516,198
Akorn agreement [i]	4,000,000	6,060,000	—	—	—	—	6,060,000
Legal services [ii]	31,188	47,250	—	—	—	—	47,250
Exercise of options	—	—	90,000	7,200	—	—	7,200
Purchase of licenses [iii]	—	—	990,099	1,500,000	—	—	1,500,000
Proceeds from private placement [iv]	—	—	—	—	6,600,659	9,209,887	9,209,887
Balance, December 31, 2002	16,031,188	6,107,450	1,432,532	2,023,198	7,920,791	11,209,887	19,340,535
Exercise of options	—	—	5,000	400	—	—	400

	Class A common		Class B common		Class C preference		Total
	Number of shares	Consideration	Number of shares	Consideration	Number of shares	Consideration	
	#	\$	#	\$	#	\$	
Balance, December 31, 2003	16,031,188	6,107,450	1,437,532	2,023,598	7,920,791	11,209,887	19,340,935
Proceeds from private placement [v]	7,131,414	2,153,141	—	—	5,940,594	9,000,000	11,153,141
Purchase of shares [vi]	(7,923,793)	(2,825,901)	(132,013)	(185,833)	—	—	(3,011,734)
Net cancellation on reorganization	(1)	—	—	—	—	—	—
Purchase of shares [viii]	(2,573,793)	(917,904)	—	—	—	—	(917,904)
Proceeds from private placement [vii]	1,122,537	338,920	—	—	935,094	1,416,667	1,755,587
Share issue costs	—	—	—	—	—	(354,008)	(354,008)
Balance, December 31, 2004 and							
March 31, 2005	<u>13,787,552</u>	<u>4,855,706</u>	<u>1,305,519</u>	<u>1,837,765</u>	<u>14,796,479</u>	<u>21,272,546</u>	<u>27,966,017</u>

- [i] On January 4, 2002, the Company terminated its “Exclusive Cross Marketing Agreement” with Akorn, Inc. Under the terms of this agreement, each party was to receive 50% of profit generated from products sold in the cardiovascular field. Under the terms of the “Settlement and Mutual Release Agreement”, the Company retains 100% of profits from sales and agreed to purchase fluorescent imaging agents known as Indocyanine Green [“ICG”] exclusively from Akorn for a period of seven years under a “Supply Agreement”. The Company issued 4,000,000 Class A common shares to complete this transaction. Akorn was entitled to a seat on the Board of Directors whilst 10% ownership in the Company was maintained. These Class A common shares were valued at \$1.515 per share. On July 26, 2004 the Company repurchased these shares and terminated the Supply Agreement.
- [iii] The Company issued 31,188 Class A common shares in consideration for legal work performed in connection with a financing.
- [iii] A total of 990,099 Class B common shares were issued for age-related macular degeneration [“AMD”] rights acquired under two separate license agreements with The Johns Hopkins University.
- [iv] On March 22, 2002, the Company issued 6,600,659 Class C preference shares for cash proceeds of \$10,000,000. The net proceeds of this offering were \$9,209,887, after issue expenses and investment banking fees of \$790,113. As additional consideration in connection with the offering, the Company granted the investors, certain shareholders and agents share purchase warrants and special stock options entitling the investors to acquire 3,300,327 Class A common shares, certain shareholders to acquire 306,188 Class A common shares and the agents to acquire 330,033 Class A common shares, all at a price of \$1.515 per share. The share purchase warrants and special stock options expire on the earlier of March 21, 2006 and two years from the date on which the Class A common shares are listed on a recognized major North American stock exchange.
- [v] Pursuant to a Subscription Agreement, on July 26, 2004, the Company issued 5,940,594 Class C preference shares for cash proceeds of \$9,000,000 and 7,131,414 Class A common shares for cash proceeds of \$2,153,141.
- [vi] On July 26, 2004, pursuant to share purchase agreements with certain shareholders who were also related parties, the Company purchased 7,923,793 Class A common shares and 132,013 Class B common shares for cash proceeds of \$2,402,500. The Company purchased 4,000,000 Class A common shares and 132,013 Class B common shares for \$2,000,000 from a shareholder who owned greater than 10% of the Class A common shares and was entitled to a seat on the Board of Directors. The Company purchased 2,573,793 Class A common shares from a shareholder who was a former officer of the Company for \$267,500. The Company purchased 1,350,000 Class A common shares of the Company for \$135,000 from a shareholder whose nominee served as a director until July 26, 2004. The Class A common shares purchased on July 26, 2004 were purchased for \$487,298 below the assigned cost of \$2,825,901. The Class B common shares were purchased for \$121,935 below the assigned cost of \$185,833. The assigned cost of the Class A and Class B common shares is determined based on the respective average number of the Class A and Class B common shares outstanding at the time of purchase.
- [vii] On November 22, 2004, pursuant to a subscription agreement, the Company issued 935,094 Class C preference shares for cash proceeds of \$1,416,667 and 1,122,537 Class A common shares for cash proceeds of \$338,920.
- [viii] On November 22, 2004, pursuant to a share purchase agreement with a shareholder who was a former officer of the Company, the Company purchased 2,573,793 Class A common shares for \$295,987. The Class A common shares were purchased for \$621,917 below the assigned cost of \$917,904. The assigned cost of the Class A common shares purchased is determined based on the average cost of the Class A common shares outstanding at the time of purchase.

[c] Contributed surplus changes during the year:

	Contributed surplus
	\$
Balance, December 31, 2002	—
Stock-based compensation	319,000
Balance, December 31, 2003	319,000
Purchase of Class A common shares [see vi above]	487,298
Purchase of Class B common shares [see vi above]	121,935
Purchase of Class A common shares [see viii above]	621,917
Stock-based compensation	730,741
Balance, December 31, 2004	2,280,891
Stock-based compensation	160,609
Balance, March 31, 2005	<u>2,441,500</u>

[d] Share purchase warrants and special stock options

Share purchase warrants

	#
Class A common shares	
Share purchase warrants outstanding, December 31, 2001	—
Share purchase warrants issued with private equity placement	3,630,360
Share purchase warrants outstanding, December 31, 2002, 2003 and 2004 and March 31, 2005	<u>3,630,360</u>

Each share purchase warrant is exchangeable for one Class A common share at the price of \$1.515 per share. The warrants expire on the earlier of March 21, 2006 and two years from the date on which the Class A common shares are listed on a recognized major North American stock exchange. The maximum possible cash proceeds to the Company from the exercise of the share purchase warrants outstanding at December 31, 2004 are \$5,499,995.

Special stock options

	#
Class A common shares	
Special stock options outstanding, December 31, 2001	—
Special stock options issued	306,188
Special stock options outstanding, December 31, 2002, 2003 and 2004 and March 31, 2005	<u>306,188</u>

Each special stock option is exercisable for one Class A common share at the price of \$1.515 per share. The special stock options expire on the earlier of March 21, 2006 and two years from the date on which the Class A common shares are listed on a recognized major North American stock exchange.

The maximum possible cash proceeds to the Company from the exercise of the special stock options outstanding at December 31, 2004 are \$463,875.

[e] Stock-based compensation plan

On September 5, 2000, the Company established a Stock Option Plan [the “Plan”] for directors, officers, employees and consultants of the Company. The Plan is administered by the Compensation Committee of the Board of Directors of the Company.

The exercise price of the options may not be less than the fair market value at the time the options are granted. The options vest at a rate of 25% per annum commencing in the month after the month of grant, with the exception of the options for the Chief Executive Officer [“CEO”] and directors of the Company.

The options for the CEO are segregated into two categories. The first category contains the option to purchase 1,000,000 Class B common shares that vest over a four-year period. The second category contains the option to purchase an additional 500,000 Class B common shares upon the completion of certain performance criteria. Amortization of the performance related options commenced in 2003 for 200,000 of the options and in 2004 for 300,000 of the options.

The options for the directors vest at a rate of 33% per annum commencing in the month after the month of grant.

All options vest [i] 91 days after the common shares are either listed and posted for trading on a stock exchange or automated quotation system approved by the Board of Directors or [ii] immediately prior to the closing of the amalgamation, consolidation or merger with an entity where the shareholders prior to such transaction have less than 50% of the voting shares after such transaction, or the Company is not the continuing company.

Options expire upon the earliest of: three months after the optionee ceases to be an eligible person [except in the case of directors]; immediately after the amalgamation, consolidation or merger with an entity where the shareholders prior to this transaction have less than 50% of the voting shares after such transaction, or the Company is not the continuing company; and the date of expiration of the option, which unless otherwise determined is the later of five years from the option grant date or six months days after an initial public offering.

On July 22, 2004, all Class B options outstanding under the Company's Plan with an exercise price greater than \$0.50 were re-priced such that they are exercisable at \$0.50.

On March 29, 2005, the Company adopted an amended stock option plan [the "New Plan"] for employees, directors, senior officers and consultants of the Company. Under the New Plan, options to purchase common shares of the Company may be granted by the Board of Directors to directors, senior officers, employees and consultants of the Company. When the Company's shares are listed and posted for trading on a stock exchange or automated quotation system, options granted under the New Plan will have an exercise price of not less than the volume weighted average trading price of the common shares for the five trading days preceding the day on which the option is granted. The maximum aggregate number of common shares which may be subject to options under the New Plan is 10% of the common shares of the Company outstanding from time to time after the offering [note 13[b]].

Options granted under the New Plan will generally vest over a three-year period and may be exercised in whole or in part at any time as follows: 33% on or after the first anniversary of the grant date, 67% on or after the second anniversary of the grant date, and 100% on or after the third anniversary of the grant date. Options will expire on the fifth anniversary of the grant date. Any option not exercised prior to the expiry date will become null and void. In connection with certain change of control transactions, including a take-over bid, merger or other structured acquisition, the Board of Directors may accelerate the vesting date of all unvested options such that all optionees will be entitled to exercise their full allocation of options and in certain circumstances where such optionee's employment is terminated in connection with such transaction such accelerated vesting will be automatic. Options granted under the New Plan terminate on the earlier of the expiration date of the option or 180 days following the death of the optionee or termination of the optionee's employment because of permanent disability, as a result of termination of the employee's employment because of the retirement of an optionee or as a result of such optionee ceasing to be a director, or 30 days following termination of an optionee without cause or immediately upon an optionee being terminated for cause.

On March 29, 2005, 25,000 options were granted under the Plan and 917,500 options were granted under the New Plan each at an exercise price of \$0.50.

Effective January 1, 2003, the Company accounts for its grants under the Plan in accordance with the fair value based method of accounting for stock-based compensation. The compensation cost that has been recognized for the three month period ended March 31, 2005 is \$160,609 [three month period ended March 31, 2004 — \$170,000; year ended December 31, 2004 — \$730,741; year ended December 31, 2003 — \$319,000].

If the Company had accounted for stock option grants in accordance with the fair value method of accounting for stock-based compensation in 2002, the difference between pro-forma net loss and reported net loss would not have been material.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options issued. For the three month period ended March 31, 2005, the following assumptions were used: weighted average volatility of 78% [three month period ended March 31, 2004 — 73%; year ended December 31, 2004 — 73%; year ended December 31, 2003 — 67%], expected dividend yield of nil [three month period ended March 31, 2004 — nil; year ended December 31, 2004 — nil; year ended December 31, 2003 — nil], weighted average expected life of five years and weighted average interest rate of 3.53% [three month period ended March 31, 2004 — 3.47%; year ended December 31, 2004 — 3.78%; year ended December 31, 2003 — 4.23%].

A summary of the options outstanding under the Plan is presented below:

	As at March 31, 2005		As at December 31,					
			2004		2003		2002	
	Number outstanding #	Weighted average exercise price \$	Number outstanding #	Weighted average exercise price \$	Number outstanding #	Weighted average exercise price \$	Number outstanding #	Weighted average exercise price \$
Options outstanding,								
beginning of period ...	2,287,500	0.498	2,037,500	1.508	157,500	1.333	430,000	0.247
Options granted	942,500	0.50	315,000	0.820	1,910,000	1.515	87,500	1.515
Options exercised	—	—	—	—	(5,000)	0.080	(90,000)	0.080
Options cancelled	(40,000)	0.50	(65,000)	1.454	(25,000)	1.228	(270,000)	0.080
Options repriced	—	—	—	(1.010)	—	—	—	—
Options outstanding, end								
of period	<u>3,190,000</u>	<u>0.499</u>	<u>2,287,500</u>	<u>0.498</u>	<u>2,037,500</u>	<u>1.508</u>	<u>157,500</u>	<u>1.333</u>
Options exercisable, end								
of period	<u>750,000</u>	<u>0.494</u>	<u>616,250</u>	<u>0.493</u>	<u>49,375</u>	<u>1.297</u>	<u>22,500</u>	<u>0.880</u>

The weighted average fair value of the options issued during the quarter ended March 31, 2005 was \$1.26 per share [year ended December 31, 2004 — \$0.51; year ended December 31, 2003 — \$0.89].

As at March 31, 2005, options to purchase Class B common shares have been granted as follows:

Options outstanding			Options exercisable	
Exercise price	Number outstanding	Weighted average remaining life	Number outstanding	Exercise price
\$	#	[years]	#	\$
0.08	10,000	0.60	10,000	0.080
0.50	<u>3,180,000</u>	<u>3.72</u>	<u>740,000</u>	<u>0.500</u>
	<u>3,190,000</u>	<u>3.71</u>	<u>750,000</u>	<u>0.494</u>

As at December 31, 2004, options to purchase Class B common shares have been granted as follows:

Options outstanding			Options exercisable	
Exercise price	Number outstanding	Weighted average remaining life	Number outstanding	Exercise price
\$	#	[years]	#	\$
0.08	10,000	0.85	10,000	0.080
0.50	<u>2,277,500</u>	<u>3.20</u>	<u>606,250</u>	<u>0.500</u>
	<u>2,287,500</u>	<u>3.15</u>	<u>616,250</u>	<u>0.493</u>

[f] Earnings per share

The weighted average number of shares is determined taking into account Class A and Class B common shares. The weighted average number of shares during the three month period ended March 31, 2005 is 15,093,071 [three month period ended March 31, 2004 — 17,468,720; year ended December 31, 2004 — 16,962,619; year ended December 31, 2003 — 17,466,220; year ended December 31, 2002 — 16,668,349]. No adjustment was made to the weighted average number of shares outstanding to calculate the fully diluted earnings per share as any adjustment would be anti-dilutive. Securities that could dilute the Company's earnings per share are as follows: Class C preference shares of 14,796,479 as at March 31, 2005 and December 31, 2004 [2003 — 7,920,791; 2002 — 7,920,791], share purchase warrants of 3,630,360 as at March 31, 2005 and December 31, 2004 [2003 — 3,630,360; 2002 — 3,630,360], special stock options of 306,188 as at March 31, 2005 and December 31, 2004 [2003 — 306,188; 2002 — 306,188] and employee stock options of 3,190,000 as at March 31, 2005 [2004 — 2,287,500; 2003 — 2,037,500; 2002 — 157,500].

6. Commitments and Contingencies

- [a] Under an international rights license agreement with The Johns Hopkins University — Applied Physics Laboratory [“JHU/APL”], the Company acquired worldwide rights excluding the United States to all foreign patent applications corresponding to U.S. patents numbered 5,279,298 and 5,394,199. The patents are titled respectively, “Method and Apparatus to Identify and Treat Neovascular Membranes in the Eye” and “Method and Apparatus for Improved Visualization of Choroidal Blood Flow and Aberrant Structures in the Eye Using Fluorescent Dye Angiography”. Total consideration for the purchase of this license is \$4,400,000, consisting of upfront payments and milestone payments relating to specified sales volumes generated from the license. As at December 31, 2004, the Company had paid \$2,950,000 in connection with the license and has future commitments in the amount of \$1,450,000. The Company is also required to pay running royalties on the sales of products and services [“running royalties”] that will range from 1.5% to 7.0% of gross sales revenues depending on annual sales volumes. The Company may be required to pay minimum royalty payments, depending on the amount of running royalties paid in the year prior to the date that minimum royalty payments are due.
- [b] The rights to the United States patents noted in [a] above were also acquired under a separate agreement with JHU/APL. Total consideration for the purchase of this license is \$4,370,000, which consists of upfront payments and milestone payments relating to raising a specified amount of financing, receiving certain approvals from the United States Food and Drug Administration [“FDA”], and specified sales volumes generated from the license in the United States. As at December 31, 2004, the Company had paid \$1,375,000 in connection with the license and has future commitments with respect to this license agreement in the amount of \$2,995,000. The Company is also required to pay running royalties that will either be 3.0% or 4.5% of gross sales revenues depending on the type of regulatory approval obtained from the FDA. The Company may be required to pay minimum royalty payments, depending on the amount of running royalties paid in the year prior to the date that minimum royalty payments are due.
- [c] The Company has entered into lease commitments for office premises. The future minimum annual lease payments as at December 31, 2004 are as follows:

	\$
2005	55,144
2006	56,799
2007	57,901
2008	33,776
	<u>203,620</u>

- [d] In the year ended December 31, 2002, the Company received contributions totalling Cdn \$985,050 from the National Research Council of Canada [“NRC”] Industrial Research Assistance Program. The NRC contributed to two separate projects. This contribution is

conditionally repayable commencing in 2004 for one project, and commencing in 2005 for the other project. For each project, the Company is obligated to pay the NRC 1% of its gross revenue. The Company's obligation ceases if 150% of the contribution is repaid within the first four years of the repayment period. If this amount is not repaid during the repayment period, the Company's obligation ceases at the earlier of full repayment of the contribution or March 2015. Interest of 12.68% is payable on overdue amounts.

- [e] In the year ended December 31, 2002, the Company received financing totalling Cdn \$55,866 from Industry Canada under the Market Development Strategies section of the Program for Export Market Development. A further contribution of \$20,286 [for an aggregate total of \$76,252] was received in the year ended December 31, 2003. These contributions are conditionally repayable commencing in 2003. The Company is obligated to repay Industry Canada 4% of the Company's incremental gross export revenue to Europe until the earlier of full repayment or July 2006.

7. Financial Instruments

As at March 31, 2005 and December 31, 2004 and 2003, the carrying values of the Company's financial instruments approximate their fair values due to their short-term nature.

8. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the future tax assets as at December 31 are presented below.

	2004	2003	2002
	Cdn\$	Cdn\$	Cdn\$
Future tax assets			
Non-capital losses	4,757,000	3,538,800	1,478,600
Investment tax credits	228,300	173,800	179,320
Scientific research and experimental development expenses	420,700	488,300	715,410
Deferred revenue	48,100	66,700	—
Share issue costs	351,600	269,900	311,400
Property, plant and equipment and licenses	3,352,200	3,081,750	2,349,889
	9,157,900	7,619,250	5,034,619
Current year's investment tax credit	—	(19,900)	—
Less valuation allowance	(9,157,900)	(7,599,350)	(5,034,619)
Net future tax assets	—	—	—

The Company has taken a valuation allowance of the full amount of the future tax assets as it is not more likely than not the Company will realize the benefits of these future tax assets.

A reconciliation between the Company's statutory and effective tax rates is presented below:

	Year ended December 31,		
	2004	2003	2002
	%	%	%
Statutory rate	36.1	36.6	38.6
Permanent differences	7.2	(0.5)	6.4
Tax rate impact on the valuation of future tax assets	—	—	6.5
Unrecognized benefit of current year's tax loss	(43.3)	(36.1)	(51.5)
	—	—	—

The Company included ITCs of Cdn \$137,256, or US\$105,582 [2003 — Cdn \$310,800, or US\$222,000; 2002 — Cdn \$200,000, or US\$127,364] in research and development as a recovery of expenses.

The Company has available research and development expenditures for income tax purposes, which may be carried forward indefinitely to reduce future years' taxable income. The potential income tax benefits associated with these expenditures have not been recorded in the financial statements. The total of such expenditures accumulated to December 31, 2004 is approximately Cdn \$1,164,900 [2003 — Cdn \$1,352,000; 2002 — Cdn \$2,375,000].

As at December 31, 2004, the Company has accumulated tax losses for federal and provincial purposes in Canada of Cdn \$14,083,000 [2003 — Cdn \$9,761,000; 2002 — Cdn \$4,909,000], of which Cdn \$12,900 will expire in 2007, Cdn \$2,491,600 will expire in 2008, and the remainder will expire thereafter. The Company also has unclaimed Canadian scientific research ITCs of Cdn \$293,000 [2003 — Cdn \$223,000; 2002 — Cdn \$206,000] that will begin to expire in 2010.

9. Government Contributions

For the year ended December 31, 2004, the Company filed claims with the NRC against approved contributions in the amount of \$16,796 [2003 — \$19,685; 2002 — nil]. The claim amount has been credited against research and development expenses. As at December 31, 2004, no amount [2003 — \$18,445] was included in prepaid expenses and other receivables.

10. Statement of Cash Flows

The net change in non-cash working capital balances related to operations consists of the following:

	For the three months ended March 31,		Year ended December 31,		
	2005	2004	2004	2003	2002
	\$	\$	\$	\$	\$
Accounts receivable	1,081,006	131,831	(869,659)	(155,481)	(39,324)
Investment tax credits receivable	14,719	784	14,950	25,663	(95,081)
Prepaid expenses and other receivables	2,605	82,277	115,058	38,120	(155,100)
Inventory	(9,453)	28,675	228,635	(67,623)	(209,355)
Transfer of devices between property, plant and equipment and inventory ...	—	—	(44,416)	26,696	—
Accounts payable and accrued liabilities	304,466	(78,235)	(12,055)	(629,033)	392,921
Deferred revenue	(9,338)	(9,337)	(37,351)	133,843	—
Deferred charges	(184,073)	1,938	7,756	(26,771)	—
	<u>1,199,932</u>	<u>157,933</u>	<u>(597,082)</u>	<u>(654,586)</u>	<u>(105,939)</u>

During the year ended December 31, 2002, the Company issued \$1,500,000 of Class B common shares in connection with a payment under a license agreement, \$6,060,000 Class A common shares in connection with termination of an agreement and \$47,250 of Class A common shares in consideration for legal fees [note 5[b]].

11. Related Party Transactions

[a] During 2002 and 2003, the NRC was a shareholder of the Company through Diaspec, Inc. [a holding company] and also maintained a seat on the Board of Directors. During the year ended December 31, 2003, the Company incurred \$4,650 of royalty expense to the NRC in respect of cardiac imaging systems sold in the year.

[b] In 2002 and 2003, the Company contracted the majority of the product development and manufacturing to Automation Tooling Systems Inc. ["ATS"], a shareholder of the Company. The following transactions were conducted with ATS [nil in 2004]:

	2003	2002
	\$	\$
Development of cardiac imaging systems	(50,490)	475,462
Development of AMD device	152,704	547,912
Purchase of cardiac imaging systems	206,251	370,660
	<u>308,465</u>	<u>1,394,034</u>

[c] During the year ended December 31, 2004, nil [2003 — \$7,138; 2002 — nil] was paid to a director of the Company for management consulting services.

[d] Related party balances at year end included in accounts payable and accrued liabilities are as follows [nil in 2004]:

	2003	2002
	\$	\$
Due to Akorn	—	40,000
Due to NRC	4,628	12,753
Due to ATS	—	610,133
	<u>4,628</u>	<u>662,886</u>

12. SEGMENTED INFORMATION

The Company operates in two business segments, representing two different uses of its vascular imaging technique. The two segments are Cardiac Surgery ["Cardiac"] and Ophthalmology. The Cardiac segment develops and sells an intra-operative imaging system ["SPY imaging system"], a diagnostic device that allows cardiac surgeons to validate graft patency during coronary artery bypass graft surgery. The Ophthalmology segment is developing a system that will be used for the diagnosis and treatment of age related macular degeneration.

Selected segmented information is as follows:

March 31, 2005				
	Cardiac	Ophthalmology	Other	Total
	\$	\$	\$	\$
Revenue	155,418	—	—	155,418
Segment profit [i]	119,118	—	—	119,118
Total assets [ii]	135,585	3,231,334	9,924,029	13,290,948
Additions to property, plant and equipment	—	—	13,097	13,097
March 31, 2004				
	Cardiac	Ophthalmology	Other	Total
	\$	\$	\$	\$
Revenue	23,947	—	—	23,947
Segment profit [i]	6,795	—	—	6,795
Total assets [ii]	429,287	3,470,445	1,577,212	5,476,944
Additions to property, plant and equipment	31,069	—	—	31,069
December 31, 2004				
	Cardiac	Ophthalmology	Other	Total
	\$	\$	\$	\$
Revenue	1,147,274	—	—	1,147,274
Segment profit [i]	828,731	—	—	828,731
Total assets [ii]	1,197,107	3,336,618	9,523,024	14,056,749
Additions to property, plant and equipment	—	—	12,220	12,220
December 31, 2003				
	Cardiac	Ophthalmology	Other	Total
	\$	\$	\$	\$
Revenue	332,626	—	—	332,626
Segment profit [i]	78,152	—	—	78,152
Total assets [ii]	576,008	3,570,462	2,145,577	6,292,047
Additions to property, plant and equipment	—	—	5,057	5,057
December 31, 2002				
	Cardiac	Ophthalmology	Other	Total
	\$	\$	\$	\$
Revenue	407,079	—	—	407,079
Segment profit [i]	220,411	—	—	220,411
Total assets [ii]	441,578	4,025,997	5,202,192	9,669,767
Additions to property, plant and equipment	220,498	40,000	28,127	288,625

A reconciliation between the Company's total profit for reportable segments and net loss is presented below:

	For the three months ended March 31,		Year ended December 31,		
	2005	2004	2004	2003	2002
	\$	\$	\$	\$	\$
Total profit for reportable segments	119,118	6,795	828,731	78,152	220,411
Unallocated amounts [i]	(1,340,656)	(904,326)	(3,601,596)	(3,280,082)	(8,892,682)
Net loss	<u>(1,221,538)</u>	<u>(897,531)</u>	<u>(2,772,865)</u>	<u>(3,201,930)</u>	<u>(8,672,271)</u>

[i] The Company evaluates performance and resources of its segments based on gross profit. The Company does not allocate the following items to its segments: sales and marketing, research and development, general and administration, depreciation and amortization, write-downs, foreign exchange gain or loss, or interest income.

[ii] Cash and cash equivalents, short-term investments, ITCs receivable, prepaid expenses and other receivables and property, plant and equipment used in the corporate offices have not been allocated to the segments.

Revenue by region is as follows:

	For the three months ended March 31,		Year ended December 31,		
	2005	2004	2004	2003	2002
	\$	\$	\$	\$	\$
Japan	9,325	11,289	1,084,889	227,884	293,696
Canada	13,988	12,658	38,125	16,394	94,518
Other	132,105	—	24,260	88,348	18,865
Total	<u>155,418</u>	<u>23,947</u>	<u>1,147,274</u>	<u>332,626</u>	<u>407,079</u>

One customer accounted for 82% of the revenue earned during the three months ended March 31, 2005. A different customer accounted for 95% of the revenue earned in year ended December 31, 2004. Two customers accounted for 91% of the revenue in the year ended December 31, 2003 and one customer was accounted for 72% of the revenue in the year ended December 31, 2002.

Property, plant and equipment, net, by region are as follows:

	For the three months ended March 31,		Year ended December 31,		
	2005	2004	2004	2003	2002
	\$	\$	\$	\$	\$
Canada	22,494	16,917	13,772	35,890	79,458
Other	<u>20,542</u>	<u>51,983</u>	<u>27,770</u>	<u>22,193</u>	<u>158,737</u>
Total	<u>43,036</u>	<u>68,900</u>	<u>41,542</u>	<u>58,083</u>	<u>238,195</u>

13. Subsequent Events

- [a] On May •, 2005, the articles of the Company were amended to reclassify the share capital of the Company through the conversion of all Class B common shares and Class C preference shares into Class A common shares on the basis of one Class A common share for each Class B common share and • Class A common shares for each Class C preference share. The articles of the Company were also amended to, among other things, delete the Class B common shares and the Class C preference shares as an authorized class of shares, to rename the Class A common shares as common shares, to consolidate the common shares on a one-for-two basis and to authorize the Company to issue an unlimited number of preference shares, issuable in one or more series. Outstanding options and other rights to acquire common shares will also be adjusted proportionately.

The proforma basic and fully diluted earnings per share for the year ended December 31, 2004 assuming the capital reorganization occurred January 1, 2004 is \$ • [2003 – \$ • ; 2002 – \$ • assuming the capital reorganization occurred January 1, 2003 and 2002 respectively].

- [b] On May •, the Company entered into an underwriting agreement to sell and issue • common shares for proceeds of \$ •, net of share issue costs of \$ •, excluding the over-allotment of • shares.

CERTIFICATE OF THE COMPANY

Dated: May 10, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Part 6 of the *Securities Act* (New Brunswick), Section 63 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island) and Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus, as required by the *Securities Act* (Québec) and the regulations thereunder, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

By: (signed) Arun Menawat
Chief Executive Officer

By: (signed) Roger Deck
Chief Financial Officer

On behalf of the Board of Directors

By: (signed) Anthony Griffiths
Director

By: (signed) Aaron Davidson
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: May 10, 2005

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba), Part XV of the *Securities Act* (Ontario), Part 6 of the *Securities Act* (New Brunswick), Section 64 of the *Securities Act* (Nova Scotia), Part II of the *Securities Act* (Prince Edward Island) and Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder. To our knowledge, this prospectus, as required by the *Securities Act* (Québec) and the regulations thereunder, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

RBC DOMINION SECURITIES INC.

TD SECURITIES INC.

By: (signed) ANDREW J. SMITIUCH

By: (signed) ROMAN GULA

GMP SECURITIES LTD.

ORION SECURITIES INC.

SCOTIA CAPITAL INC.

By: (signed) STEVEN D. OTTAWAY

By: (signed) MICHAEL J. DENNY

By: (signed) VINCE M. MAZZA

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