

NOVADAQ Technologies Inc.

# Management Information Circular

Notice of Annual and Special Shareholder Meeting  
to be held on May 17, 2017

April 17, 2017

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## NOVADAQ TECHNOLOGIES INC.

### NOTICE OF ANNUAL AND SPECIAL SHAREHOLDER MEETING

TAKE NOTICE THAT the annual and special meeting (the “**Meeting**”) of holders of common shares (the “**Shareholders**”) of Novadaq Technologies Inc. (the “**Corporation**”) will be held at the offices of Stikeman Elliott LLP, 199 Bay Street, Commerce Court West, 53rd Floor, Toronto, Ontario M5L 1B9 in the Main Boardroom on May 17, 2017 at 9:30 a.m. (Toronto time) for the following purposes:

1. To receive the financial statements of the Corporation for the year ended December 31, 2016, together with the report of the auditors thereon.
2. To elect eight directors of the Corporation to hold office until the Corporation’s 2018 Annual General Meeting of Shareholders or until their successors are duly elected or appointed.
3. To re-appoint KPMG (Canada) LLP as the auditors of the Corporation and to authorize the directors of the Corporation to fix their remuneration.
4. To consider, and if deemed advisable, to pass, with or without variation, an ordinary resolution (i) approving certain amendments to the Corporation’s second amended and restated stock option plan (as amended, the “**Option Plan**”) and (ii) reconfirming and approving all unallocated options under the Option Plan, as it may be further amended and restated under the resolution referred to in item 4 of the accompanying management information circular.
5. To consider, and if deemed advisable, to pass, with or without variation, an ordinary resolution (i) approving certain amendments to the Corporation’s long term incentive plan (as amended, the “**LTIP**”) and (ii) reconfirming and approving unallocated restricted share units and deferred share units under the LTIP, as it may be further amended and restated under the resolution referred to in item 5 of the accompanying management information circular.
6. To transact such further or other business as may properly come before the Meeting or any adjournment or postponement thereof.

This notice is accompanied by a form of proxy, the management information circular and if requested, the Corporation’s annual report to Shareholders, which includes the audited financial statements of the Corporation for the financial year ended December 31, 2016. Reference should be made to the accompanying management information circular for details of the above matters.

So that as large a representation as possible may be had at the Meeting, if you are a registered shareholder and are unable to be present personally at the Meeting, you can submit your proxy (a) by completing the enclosed form of proxy and depositing it with Computershare

Investor Services Inc., Proxy Dept., 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1 not later than 9:30 a.m. (Toronto time) on May 15, 2017 or 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time of the holding of any adjourned or postponed Meeting; (b) over the Internet by going to [www.investorvote.com](http://www.investorvote.com) and following the instructions provided; or (c) telephone voting is available by following the instructions on the form of proxy for registered shareholders.

If you are a non-registered shareholder and have received this notice and this management information circular from your broker or another intermediary, please complete and return the proxy or other authorization form provided to you by your broker or intermediary in accordance with the instructions provided to you.

The board of directors of the Corporation (the “**Board**”) has fixed the close of business on April 17, 2017 as the record date for the determination of holders of common shares entitled to notice of the Meeting, and any adjournment or postponement thereof.

DATED at Toronto, this 17<sup>th</sup> day of April, 2017.

By order of the Board,



William Mackinnon,  
Chairman of the Board

## MANAGEMENT INFORMATION CIRCULAR SOLICITATION OF PROXIES

This management information circular (the “**Circular**”) is furnished in connection with the solicitation by management (the “**Management**”) of Novadaq Technologies Inc. (the “**Corporation**” or “**Novadaq**”) of proxies to be used at the annual and special meeting of holders of common shares (“**Shareholders**”) of the Corporation (the “**Meeting**”) to be held at the time and place and for the purposes set out in the Notice of Annual and Special Meeting of Shareholders accompanying this Circular (the “**Notice of Meeting**”). Unless otherwise stated, all information contained in this Circular is presented as at April 17, 2017 and, unless otherwise indicated, all references to \$ in this Circular are to Canadian dollars.

The form of proxy accompanying this Circular is solicited by, or on behalf of, Management of the Corporation. In addition to solicitation by mail, proxies may be solicited personally, by telephone or by other forms of electronic communication, by directors, officers and employees of the Corporation, none of whom have been specifically engaged for this purpose. The costs of solicitation will be borne by the Corporation.

### APPOINTMENT AND REVOCATION OF PROXIES

A Shareholder who does not wish to attend the Meeting or does not wish to vote in person, by Internet or by telephone, has the right to appoint a person (who need not be a Shareholder) other than the persons designated in the enclosed form of proxy to attend and to vote and act for, and on behalf of, such Shareholder at the Meeting, and any adjournment or postponement thereof. Such right may be exercised by striking out the names of persons designated in the enclosed form of proxy and by inserting in the blank space provided for that purpose the name of the desired person or by completing another proper form of proxy.

A Shareholder who wishes to be represented by proxy at the Meeting, or any adjournment or postponement thereof, must deposit the accompanying form of proxy, duly executed, not later than 9:30 a.m. (Toronto time) on May 15, 2017 or 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time of the holding of any adjourned or postponed Meeting, with Computershare Investor Services Inc. as follows:

- a) to Computershare Investor Services Inc., 8<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1;
- b) over the Internet by going to [www.investorvote.com](http://www.investorvote.com) and following the instructions provided; or
- c) over the telephone, by following the instructions provided on the form of proxy.

The common shares represented by the proxy which is hereby solicited will be voted or withheld from voting in accordance with the instructions of the Shareholder on any ballot that may be called for, and, where the Shareholder whose proxy is solicited specifies a choice with respect to any matter to be acted upon, the common shares shall be voted by the appointee

accordingly. Where a Shareholder fails to specify a choice with respect to a matter referred to in the Notice of Meeting, the common shares represented by such proxy will be voted for or in favour of such matter.

The enclosed proxy confers discretionary authority upon the proxy nominee with respect to any amendments or variations to the matters referred to in the Notice of Meeting and any other matters which may properly come before the Meeting, or any adjournment or postponement thereof. At the time of printing of this Circular, Management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting, other than the matters referred to in the Notice of Meeting. However, if any other matters which at present are not known to Management of the Corporation should properly come before the Meeting, proxies will be voted on such matters in accordance with the best judgment of the named proxy holders.

A Shareholder executing a proxy has the power to revoke it as to any matter on which a vote shall not already have been cast:

- (a) by depositing an instrument in writing executed by such Shareholder or by such Shareholder's attorney authorized in writing, or, if the Shareholder is a corporation, by an officer or attorney thereof duly authorized indicating the capacity under which such officer or attorney is signing:
  - (i) at the registered office of the Corporation, Novadaq Technologies Inc., 5090 Explorer Drive, Suite 202, Mississauga, Ontario, L4W 4T9, Attention: Corporate Secretary, at any time up to and including the last business day preceding the day of the Meeting, or any adjournments or postponements thereof; or
  - (ii) with the Chairman of the Meeting on the day of the Meeting, or any adjournment or postponement thereof; or
- (b) in any other manner permitted by law.

#### **ADVICE TO BENEFICIAL SHAREHOLDERS**

Only registered Shareholders of the Corporation or the persons they appoint as their proxies are permitted to vote at the Meeting. However, in many cases, common shares beneficially owned by a person (a "**Non-Registered Holder**") are registered either:

- (a) in the name of an intermediary (an "**Intermediary**") that the Non-Registered Holder deals with in respect of the common shares of the Corporation (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIIFs, TFSAs, RESPs and similar plans); or

- (b) in the name of a depository (a “**Depository**”, such as CDS Clearing and Depository Services Inc.) of which the Intermediary is a participant.

In accordance with the requirements of *National Instrument 54-101 Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”), the Corporation will have distributed copies of the Notice of Meeting, this Circular and the form of proxy (collectively, the “**Meeting Materials**”) to the Depositories and Intermediaries for onward distribution to Non-Registered Holders. Intermediaries are required to forward the Meeting Materials to Non-Registered Holders, unless a Non-Registered Holder has waived the right to receive them. Intermediaries often use service companies to forward the Meeting Materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive Meeting Materials will either:

- (a) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of common shares beneficially owned by the Non-Registered Holder but which is otherwise not completed. In this case, the Non-Registered Holder who wishes to submit a proxy should properly complete the form of proxy and submit it to the Corporation, c/o Computershare Investor Services Inc. at the address set forth in the Notice of Meeting; or
- (b) more typically, be given a voting instruction form which is not signed by the Intermediary and which must be properly completed and signed by the Non-Registered Holder and returned to the Intermediary in accordance with the instructions of the Intermediary or Depository.

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the common shares of the Corporation they beneficially own. Should a Non-Registered Holder wish to attend and vote at the Meeting, or any adjournment or postponement thereof, in person (or to have another person appointed as proxy holder to attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should follow the procedure in the request for voting instructions provided by or on behalf of the Intermediary and request a form of legal proxy which will grant the Non-Registered Holders the right to attend the Meeting, and any adjournment or postponement thereof, and vote in person. Non-Registered Holders should carefully follow the instructions of their Intermediary or Depository, including those regarding when and where the proxy or voting information form is to be delivered. A Non-Registered Holder may revoke a proxy or voting information form which has been given to an Intermediary or Depository by written notice to the Intermediary or Depository or by submitting a proxy or voting instruction form bearing a later date. In order to ensure that an Intermediary or Depository acts upon a revocation of a proxy or voting information form, the written notice should be received by the Intermediary or Depository well in advance of the Meeting.

## **Notice to United States Shareholders**

The solicitation of proxies by the Corporation is not subject to the requirements of Section 14(a) of the *United States Securities Exchange Act of 1934*, as amended (the “**US Exchange Act**”), by virtue of an exemption applicable to proxy solicitations by “foreign private issuers” as defined in Rule 3b-4 under the US Exchange Act. Accordingly, this Circular has been prepared in accordance with the applicable disclosure requirements in Canada. Shareholders in the United States should be aware that such requirements are different than those of the United States applicable to proxy statements under the US Exchange Act.

The reporting issuer does not intend to pay for intermediaries to forward to objecting beneficial owners under NI 54-101 the proxy-related materials and Form 54-101F7 – *Request for Voting Instructions Made by Intermediary*, and that in the case of an objecting beneficial owner, the objecting beneficial owner will not receive the materials unless the objecting beneficial owner’s intermediary assumes the cost of delivery.

### **VOTING SHARES AND PRINCIPAL HOLDERS**

As at the close of business on April 13, 2017, there were 57,802,861 common shares in the capital of the Corporation issued and outstanding, being the only class of shares outstanding and entitled to vote at the Meeting. Each common share entitles the holder thereof to one vote on all matters to be acted upon at the Meeting.

The Corporation has fixed April 17, 2017 as the record date for the purposes of determining holders of common shares entitled to receive notice of and vote at the Meeting.

In accordance with the provisions of the *Canada Business Corporations Act*, the Corporation has prepared a list of registered holders of common shares as at the close of business on the record date. Each holder of common shares named in the list will be entitled to vote at the Meeting the common shares shown opposite the Shareholders’ name on such list.

The following firms or corporations beneficially own or exercise control or direction over, directly or indirectly, voting shares of the Corporation carrying 10% or more of the voting rights attaching to the total number of issued and outstanding common shares of the Corporation:

| <b>Name</b>                         | <b>Number of Shares beneficially owned, controlled or directed, directly or indirectly</b> | <b>Percentage of Outstanding Common Shares of the Corporation</b> | <b>Date of Information</b> |
|-------------------------------------|--------------------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------|
| JPMorgan Chase & Co. <sup>(1)</sup> | 7,269,277                                                                                  | 12.6%                                                             | April 13, 2017             |

- (1) Based on information contained in a Schedule 13G/A filed January 11, 2017, by JPMorgan Chase & Co. (“**JPMorgan**”), on behalf of other persons known to have one or more of the following: (a) the right to receive dividends; (b) the power to direct the receipt of dividends, (c) the right to receive the proceeds from the sale of the shares; or (d) the right to direct the receipt of

proceeds from the sale of the shares. JPMorgan has sole voting power with respect to 7,000,571 shares and sole dispositive power with respect to 7,269,277 shares.

To the knowledge of the directors and executive officers of the Corporation, there are no other persons, firms or corporations who beneficially own or exercise control or direction over, directly or indirectly, voting shares of the Corporation carrying 10% or more of the voting rights attaching to the total number of issued and outstanding common shares of the Corporation. Information as to the shareholdings reflected above has been obtained by the Corporation solely from SEDI and EDGAR filings and the Corporation has undertaken no investigation to determine the existence of any other persons, firms or corporations who may beneficially own or exercise control or direction over, directly or indirectly, voting shares of the Corporation carrying 10% or more of the voting rights attaching to the total number of issued and outstanding common shares of the Corporation.

## **MATTERS TO BE ACTED UPON BY THE SHAREHOLDERS AT THE MEETING (AS ITEMIZED IN THE NOTICE OF MEETING)**

### **ITEM 1: Consolidated Financial Statements**

A copy of the consolidated financial statements of the Corporation for the year ended December 31, 2016 and the report of KPMG (Canada) LLP (“**KPMG LLP**”) on the consolidated financial statements accompanying this Circular will be submitted to Shareholders at the Meeting. Copies of the consolidated financial statements and management discussion and analysis for the year ending December 31, 2016 (“**MD&A**”) can also be obtained on SEDAR at [www.sedar.com](http://www.sedar.com), by contacting the Corporation’s Corporate Secretary at 5090 Explorer Drive, Suite 202, Mississauga, Ontario, L4W 4T9, or by telephone at 905-629-3822.

### **ITEM 2: Election of Directors**

Eight (8) nominees have been proposed by the Corporation’s board of directors (the “**Board**”) for election as directors of the Corporation. The eight (8) nominees are listed beginning on page 14. All nominees are currently directors of the Corporation. It is not anticipated that any of the nominees will be unable to serve as directors, but if that should occur for any reason prior to the Meeting, or any adjournment or postponement thereof, the persons named in the enclosed form of proxy shall be entitled to vote for any other nominee(s) in their discretion.

Each director elected will hold office until the next annual meeting of Shareholders or until his or her successor is duly elected or appointed. The current members of the Audit Committee, the Compensation Committee and the Corporate Governance Committee are noted in the descriptions of the nominees beginning on page 14.

If you complete and return the attached form of proxy, your representatives at the Meeting, or any adjournment or postponement thereof, will vote your shares FOR the election of the nominees set out herein unless you specifically direct that your vote be withheld.

### **ITEM 3: Re-Appointment of Auditor**

The Board and Management propose that the firm of KPMG LLP, be re-appointed as auditors of the Corporation to hold office until the next annual meeting of Shareholders, and that the Board be authorized to fix the auditors' remuneration. KPMG LLP was first appointed as the auditor of the Corporation effective March 31, 2014. There have not been any reportable events between the Corporation and KPMG LLP for the purposes of National Instrument 51-102 - *Continuous Disclosure Obligations*.

In order to be effective, the resolution must receive the affirmative vote of a majority of the votes cast by Shareholders present in person or represented by proxy at the Meeting.

If you complete and return the attached form of proxy, the persons named in the enclosed proxy will vote your shares FOR the appointment of KPMG LLP, as auditors of the Corporation at remuneration to be fixed by the Board, unless you specifically direct that your vote be withheld.

### **ITEM 4: Approval of Amendments to the Option Plan and Reconfirmation and Approval of Unallocated Options Thereunder**

At the Meeting, Shareholders will be asked to consider and, if thought advisable, pass a resolution in the form attached as Appendix "B-1" (the "**Option Plan Resolution**") to this Circular, approving the Shareholder Option Plan Amendments (as defined below) and the unallocated options under the Option Plan.

#### **Amendments to the Option Plan**

The Board has determined that, in order to better align with current corporate governance "best practices", it is advisable to make certain amendments to the Option Plan. On March 22, 2017, the Board approved certain "housekeeping" amendments to the Option Plan (the "**Option Plan Housekeeping Amendments**"), which include, amongst others:

- the addition of certain insider and non-employee director participation limits such that (a) the aggregate number of common shares issuable to insiders of the Corporation (as a group) at any point in time and issued within a one-year period pursuant to the Option Plan and any other security based compensation arrangement of the Corporation (including the LTIP) cannot exceed 10% of the issued and outstanding common shares of the Corporation from time to time on a non-diluted basis, and (b) the maximum value of common shares that may be reserved for issuance under the Option Plan and pursuant to any other security based compensation arrangement of the Corporation (including under the LTIP) in any given one-year period for any individual non-employee director is \$150,000, provided that the maximum value of common shares reserved for issuance under the Option Plan in any given one-year period for any individual non-employee director may not exceed \$100,000;

- the addition of clarifying language around when a “Termination Date” will be deemed to have occurred;
- removal of the Board’s discretion to extend the expiry date of any stock option past the original expiry date;
- the inclusion of references to the LTIP; and
- amendments to effect various other ancillary changes to the terms of the Option Plan to clarify, correct and make consistent in presentation various aspects of the Option Plan.

Shareholders are being asked to approve certain other amendments to the Option Plan that, pursuant to the terms of the Option Plan, require Shareholder approval (the “**Shareholder Option Plan Amendments**”, and together with Option Plan Housekeeping Amendments, the “**Option Plan Amendments**”), including (i) insertion of a new provision that requires Shareholder approval to amend the amendment provision and/or non-employee director participation limit provisions in the Option Plan, and (ii) changes to the amendment provision of the Option Plan, that would provide the Board with the power and authority to approve amendments to the Option Plan without further approval of the Shareholders to the extent such amendment:

- is for the purposes of curing any ambiguity, error or omission in the Option Plan or to correct or supplement any provision of the Option Plan that is inconsistent with any provision of the Option Plan;
- is necessary to comply with applicable law or the requirements of the TSX;
- is an amendment to the Option Plan respecting administration of the Option Plan;
- alters, extends or accelerates the terms of vesting applicable to any option;
- changes the termination provisions of an option or the Option Plan which does not entail an extension beyond the original expiry date of a stock option;
- is an amendment to the Option Plan of a “housekeeping nature”; or
- does not require Shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of TSX).

Notwithstanding the foregoing, the Board would be required to obtain Shareholder approval in order to: (i) increase the maximum number of common shares issuable under the Option Plan, (ii) reduce the exercise price or purchase price of any stock option or cancel and reissue any stock option, (iii) extend the term of any stock option beyond the original expiry date, (iv) make a change to the class of persons eligible to participate under the Option Plan, (v) make any amendment which would permit any option granted under the Option Plan to be transferable or assignable other than by will or under succession laws (estate settlement), (vi) increase the participation limits relating to the grant of options to non-employee directors and insiders, or (vii) amend the amending provision of the Option Plan.

The Option Plan, which following the Option Plan Amendments, will be referred to as the “Third Amended and Restated Option Plan”, is described below under “Summary of Option Plan”. A copy of the Option Plan, after giving effect to the Option Plan Amendments, is attached as Appendix “B-2” to this Circular.

## **Unallocated Options**

The policies of the Toronto Stock Exchange (the “TSX”) require that every three (3) years after the institution of a security-based compensation arrangement which does not have a fixed number of securities issuable, as is the case with the Option Plan, all unallocated options must be reconfirmed and approved by the Corporation’s Shareholders.

The maximum number of common shares that may be issued under the Option Plan, together with any other security based compensation arrangement of the Corporation (including the LTIP), may not exceed 10% of the number of issued and outstanding common shares of the Corporation from time to time on a non-diluted basis. As of April 13, 2017, the Corporation has 57,802,861 common shares issued and outstanding and has granted options to acquire 4,041,618 common shares (representing approximately 6.99% of the issued and outstanding common shares of the Corporation) under the Option Plan. Additionally, under the LTIP, the Corporation has granted: (i) restricted share units to acquire 240,314 common shares (representing approximately 0.42% of the issued and outstanding common shares of the Corporation), and (ii) deferred share units to acquire 62,800 common shares (representing approximately 0.11% of the issued and outstanding common shares of the Corporation). Based on the common shares issued and outstanding as of April 13, 2017, there remain 1,435,555 common shares (representing approximately 2.48% of the issued and outstanding common shares of the Corporation) that have not been allocated under the Option Plan or LTIP.

The Option Plan was most recently confirmed and approved by Shareholders of the Corporation at the annual and special Shareholder meeting held on May 21, 2014. Accordingly, at the Meeting, Shareholders will be asked to consider and, if thought advisable, approve the unallocated options under the Option Plan. If Shareholders pass the Option Plan Resolution at the Meeting, the Corporation will subsequently be required to seek the approval of Shareholders no later than May 17, 2020 with respect to the unallocated options in existence under the Option Plan at that time.

If Shareholders do not approve the Option Plan Resolution, (i) the Corporation will not be permitted to grant further options under the Option Plan until such time as the required Shareholder approval may be obtained and (ii) all options that have already been allocated and granted under the Option Plan as of the date of the Meeting that have not yet been exercised will continue unaffected in accordance with their current terms.

## **Summary of Option Plan**

The following is a summary of the Option Plan after giving effect to the Option Plan Amendments.

The Option Plan is administered by the Board and the committees of the Board to which it may delegate authority. The Board is responsible for determining the terms relating to each option, including the number of common shares subject to each option, the exercise price and the expiration date of each option, and the extent to which each option is exercisable during the term of the option. Subject to all applicable laws, any employee, senior officer, director or

consultant of the Corporation or any affiliate of the Corporation is considered an eligible person under the Option Plan. Pursuant to the Option Plan, the price at which the options are granted is equal to the volume weighted average trading price of the common shares on the exchange where they are listed for the five (5) trading days immediately preceding the date of grant or such greater amount as the Board may determine, provided, however, that the exercise price of the options shall not be less than the minimum exercise price required by applicable rules of the TSX. Options generally vest over a period of three (3) years and must be exercised no later than ten (10) years from the date of the grant.

Certain restrictions on grants apply, including that the number of common shares reserved for issuance under the Option Plan and any other securities-based compensation arrangements, including the LTIP, shall not exceed 10% of the issued and outstanding common shares of the Corporation from time to time on a non-diluted basis. Additionally: (a) the aggregate number of common shares issuable to insiders of the Corporation (as a group) at any point in time and the issuance of common shares to insiders of the Corporation (as a group) within a one-year period pursuant to the Option Plan and any other security based compensation arrangement of the Corporation (including the LTIP) cannot exceed 10% of the issued and outstanding common shares of the Corporation from time to time on a non-diluted basis, and (b) the maximum value of common shares that may be reserved for issuance under the Option Plan and pursuant to any other security based compensation arrangement of the Corporation, including under the LTIP, in any given one-year period for any individual non-employee director is \$150,000, provided that the maximum value of common shares reserved for issuance under the Option Plan in any given one-year period for any individual non-employee director may not exceed \$100,000. The number of shares that are reserved for issuance under the Option Plan that have vested and been exercised, were not exercised within the exercise period, or were forfeited, surrendered, cancelled or otherwise terminated prior to the delivery of the shares pursuant to the grant of options under the Option Plan shall, in each case, automatically become available to be made and subject to new grants under the Option Plan.

The Corporation does not provide financial assistance to option holders in connection with their participation in the Option Plan. Unless otherwise provided for, upon an option holder's employment with the Corporation being terminated by the Corporation, whether with cause or without cause, or upon the option holder's resignation (other than for retirement), the expiry date of any vested stock option granted to him or her shall be the earlier of (i) the expiry date shown on the relevant notice of grant and (ii) the date that is thirty (30) days following the date such option holder ceased to be an employee of the Corporation; all stock options granted that are outstanding but not vested on such date of termination or resignation will immediately terminate. If the option holder dies, retires, ceases to be a director (in the case where an option holder is not an employee or consultant of the Corporation), or ceases to be eligible under the Option Plan due to disability, the expiry date of any vested stock option granted to him or her is the earlier of (i) the expiry date shown on the relevant notice of grant or (ii) the date that is one hundred and eighty (180) days following the date such option holder retired or ceased to be a director (as the case may be). All stock options granted that are outstanding but not vested on such date will immediately terminate. Each option is non-transferable except by will or by laws of succession in the domicile of the deceased option holder. Subject to certain limitations, if the expiry date of any vested stock option falls on, or within nine (9) business days immediately

following a date upon which an eligible person is prohibited from exercising such stock option due to a black-out period or other trading restriction imposed by the Corporation, then such stock options will automatically be deemed to, without any further act or formality, expire instead on the tenth (10<sup>th</sup>) business day after the end of the relevant black-out period.

Subject to any necessary regulatory approval, the Board may, in its discretion, amend the Option Plan and the terms and conditions of any option previously granted under the Option Plan, without further Shareholder approval, provided that such amendment does not require shareholder approval under applicable law (including without limitation, the rules, regulations and policies of TSX) and to the extent such amendment:

- (a) is for the purposes of curing any ambiguity, error or omission in the Option Plan or to correct or supplement any provision of the Option Plan that is inconsistent with any provision of the Option Plan;
- (b) is necessary to comply with applicable law or the requirements of the TSX;
- (c) is an amendment to the Option Plan respecting administration of the Option Plan;
- (d) alters, extends or accelerates the terms of vesting applicable to any option;
- (e) changes the termination provisions of an option or the Option Plan which does not entail an extension beyond the original expiry date of a stock option;
- (f) is an amendment to the Option Plan of a “housekeeping nature”; or
- (g) does not require Shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of TSX).

Notwithstanding the foregoing, the Board shall be required to obtain shareholder approval in order to: (i) increase the maximum number of shares issuable under the Option Plan, (ii) reduce the exercise price or purchase price of any option or cancel and reissue any option, (iii) extend the term of any option beyond the original expiry date, (iv) make a change to the class of persons eligible to participate under the Option Plan, (v) make any amendment which would permit any option granted under the Option Plan to be transferable or assignable other than by will or under succession laws (estate settlement), (vi) increase the participation limits of a non-employee director or insiders, including, but not limited to, the grant to any individual non-employee director of more than \$100,000 worth of options under the Option Plan in any given one year period, or (vii) amend the amendment provision in the Option Plan.

### **Vote Required**

The full text of the Option Plan Resolution to approve amendments to, and the unallocated Options under, the Stock Option Plan is set out in Appendix “B-1” to this Circular. Pursuant to the policies of the TSX, the Stock Option Plan Resolution must be approved by a majority of votes cast by Shareholders, in person or by proxy, at the Meeting.

The Board recommends the Shareholders vote “**FOR**” the approval of the Option Plan Resolution.

**In absence of a contrary instruction, the persons designated by management of the Corporation in the enclosed form of proxy intend to vote FOR the Option Plan Resolution.**

**ITEM 5: Approval of Amendments to the LTIP and Reconfirmation and Approval of Unallocated Units Thereunder**

At the Meeting, Shareholders will be asked to consider and, if thought advisable, pass a resolution in the form attached as Appendix “C-1” (the “**LTIP Resolution**”) to this Circular, approving the Shareholder LTIP Amendments (as defined below) and the unallocated Units under the LTIP.

**Amendments to the LTIP**

The Board has determined that, in order to better align with current corporate governance “best practices”, it is advisable to make certain amendments to the LTIP. On March 22, 2017, the Board approved certain “housekeeping” amendments to the LTIP (the “**LTIP Housekeeping Amendments**”), which include, amongst others:

- adding a definition of “non-employee directors”;
- removal of Board discretion to accelerate any unvested restricted share units (“**RSUs**”) in the event a RSU participant ceases to be an eligible person under the LTIP for any reason, including, without limitation, as a result of resignation, termination, retirement, disability or death (see Section 5.6 of the LTIP);
- updating references to the Option Plan; and
- amendments to effect various other ancillary changes to the terms of the LTIP to clarify, correct and make consistent in presentation various aspects of the LTIP.

The Board is asking the Shareholders to approve certain other amendments to the LTIP that, pursuant to the terms of the LTIP, require Shareholder approval (the “**Shareholder LTIP Amendments**”, and together with LTIP Housekeeping Amendments, the “**LTIP Amendments**”), including:

- changes to the amendment provision of the LTIP to (i) add references to other applicable securities exchanges (in addition to the TSX) (see Section 3.3 of the LTIP), (ii) require Shareholder approval to cancel and reissue any RSUs or deferred share units (“**DSUs**”) (see Section 3.3(3)(g)(ii) of the LTIP) , and (iii) add additional language to ensure, for the avoidance of doubt, that Shareholder approval is required to amend the amendment provision, the number of common shares issuable under the LTIP, or the non-employee director and the insider participation limits (See Section 3.3(4) of the LTIP); and
- adding clarifying language to ensure that the grant of common shares to non-employee directors, as a group, cannot exceed 1% of the Corporation’s issued and

outstanding common shares nor can any individual non-employee director be granted more than \$150,000 worth of common shares annually pursuant to the LTIP and any other share compensation or incentive arrangements of the Corporation, including the Option Plan (see Section 3.10(1)(c)(iii) of the LTIP).

The LTIP, which following the LTIP Amendments, will be referred to as the “Amended and Restated Long Term Incentive Plan”, is described below under “Summary of LTIP”. A copy of the LTIP, after giving effect to the LTIP Amendments, is attached as Appendix “C-2” to this Circular.

### **Unallocated Units**

As with the Option Plan, the policies of the TSX require that every three (3) years after the institution of a security-based compensation arrangement which does not have a fixed number of securities issuable, as is the case with the LTIP, all unallocated units must be reconfirmed and approved by the Corporation’s Shareholders. The maximum number of common shares that may be issued under the LTIP, together with any other security based compensation arrangement of the Corporation (including the Option Plan), may not exceed 10% of the number of issued and outstanding common shares of the Corporation from time to time on a non-diluted basis. As of April 13, 2017, the Corporation has 57,802,861 common shares issued and outstanding and under the LTIP, has granted: (i) RSUs to acquire 240,314 common shares (representing approximately 0.42% of the issued and outstanding common shares of the Corporation), and (ii) DSUs to acquire 62,800 common shares (representing approximately 0.11% of the issued and outstanding common shares of the Corporation). Additionally, under the Option Plan, the Corporation has granted options to acquire 4,041,618 common shares (representing approximately 6.99% of the issued and outstanding common shares of the Corporation). Based on the common shares issued and outstanding as of April 13, 2017, there remain 1,435,555 common shares (representing approximately 2.48% of the issued and outstanding common shares of the Corporation) that have not been allocated under the Option Plan or LTIP.

The LTIP was most recently confirmed and approved by Shareholders of the Corporation at the annual and special Shareholder meeting held on May 13, 2015 and is therefore not subject to a mandatory re-confirmation and approval by Shareholders at the Meeting. Notwithstanding the foregoing, the Corporation is seeking amendment of the LTIP and reconfirmation and approval of unallocated entitlements under the LTIP by the Shareholders at the Meeting to ensure consistent alignment of timing and terms of both the Option Plan and LTIP. Accordingly, at the Meeting, Shareholders will be asked to consider and, if thought advisable, approve the amendment of the LTIP and the unallocated Units under the LTIP. If Shareholders pass the LTIP Resolution at the Meeting, the Corporation will subsequently be required to seek approval of its Shareholders no later than May 17, 2020 with respect to the unallocated Units in existence under the LTIP at that time.

If Shareholders do not approve the LTIP Resolution, (i) the Corporation will not be permitted to grant further Units under the LTIP until such time as the required Shareholder approval may be obtained and (ii) all Units that have already been allocated and granted under

the LTIP as of the date of the Meeting that have not yet been settled will continue unaffected in accordance with their current terms.

## Summary of LTIP

The following is a summary of the LTIP after giving effect to the LTIP Amendments.

The LTIP is an incentive based equity compensation plan that provides for the grant of RSUs and DSUs (together with RSUs, “**Units**”). The RSUs may be granted to any director, officer, employee or consultant of the Corporation or any of its affiliates and any such person’s personal holding company, as designated by the Board in a resolution (the “**RSU Participants**”) upon the terms and conditions set forth in a grant agreement. The DSUs may be granted to any director of the Corporation who has been designated by the Corporation for participation in the LTIP and who has agreed to participate in the LTIP (the “**DSU Participants**”, together with the RSU Participants, the “**Participants**”), upon the terms and conditions set forth in a grant agreement. Subject to Board approval, once each financial year, a DSU Participant may elect to be paid up to 100% of his or her annual board retainer in the form of DSUs, with the remaining balance (if any) being paid in cash.

The LTIP is intended to advance the interests of the Corporation by: (i) providing Participants with additional incentives; (ii) rewarding the performance of the Participants through the issuance of the Units; (iii) increasing the proprietary interest of the Participants in the success of the Corporation; (iv) encouraging the Participants to remain with the Corporation or its affiliates; and (v) attracting new directors, employees, officers and consultants to the Corporation or its affiliates.

The LTIP is administered by the Board and the Compensation Committee. The Board is responsible for, among other things, granting the RSUs to the RSU Participants, granting the DSUs to the DSU Participants, determining the terms of such grants, and interpreting the LTIP and all agreements entered into thereunder. Pursuant to the LTIP, the number of RSUs (including fractional RSUs) granted at any particular time is calculated by dividing (i) the dollar amount of such grant by (ii) the market value of a common share on the applicable grant date, which is equal to the volume weighted average trading price of all common shares traded on the NASDAQ Global Market (or other exchange where the common shares are listed) for the five (5) trading days immediately preceding such date (the “**Market Value**”). The number of DSUs (including fractional DSUs) granted at any particular time will be calculated by dividing (i) the dollar amount of such grant by (ii) the Market Value of a common share on the applicable grant date.

The RSUs vest 1/3 on each of the first, second and third anniversary dates of the original grant, provided that the RSU Participant is continuously employed by or in service with the Corporation, or any of its affiliates, until the respective vesting date. The Board has the option to add any performance-based vesting criteria at its discretion. After the RSUs have vested, a Canadian RSU Participant may deliver a settlement notice to the Corporation in respect of any or all vested RSUs it desires to settle by December 31<sup>st</sup> of the third calendar year following the year in which the services giving rise to the RSUs were rendered. U.S. RSU Participants must

settle any vested RSUs within seventy (70) days after such RSUs became vested. The Corporation may elect to settle the vested RSUs in cash, in common shares issued from treasury, or a combination thereof. Since the form of settlement (i.e. cash and/or common shares) is at the option of the Corporation, all RSUs must settle no later than December 31 in the third calendar year following the year in which the services giving rise to the RSUs were rendered.

The DSUs vest on the DSU termination date, which is the date on which the DSU Participant ceases to be a director and, if applicable, an employee of the Corporation for any reason. After the DSUs have vested, Canadian DSU Participant's will deliver to the Corporation a DSU settlement notice to elect to settle all DSUs in such DSU Participant's notional account for cash, common shares issued from treasury, or a combination thereof. U.S. DSU Participant's shall settle any vested DSUs within 70 days on the date from such DSU Participant incurs a "separation from service" within the meaning of Section 409A of U.S. Internal Revenue Code of 1986 ("**Section 409A**"). In the event that a Participant's Units are set to expire during a black-out period, such expiry date shall be automatically extended to the tenth (10th) business day after the expiration of the black-out period, provided that in the case of a U.S. Participant, in no event shall such extension result in the settlement of the Units beyond the latest date permitted by Section 409A.

The maximum number of common shares which may be reserved for issuance under the LTIP and pursuant to any other security based compensation arrangement of the Corporation (including the Option Plan) cannot exceed 10% of the issued and outstanding common shares of the Corporation from time to time on a non-diluted basis (representing an aggregate of 5,780,286 common shares as at April 13, 2017), provided that the Board may make appropriate adjustments in the common shares issuable or amounts payable to preclude a dilution or enlargement of the benefits under the LTIP, subject to Shareholder approval and any other required approval from any stock exchange or regulatory authority. The aggregate number of common shares issuable to insiders of the Corporation (as a group) at any point in time and the issuance of common shares to insiders of the Corporation (as a group) within a one-year period pursuant to the LTIP and any other security based compensation arrangement of the Corporation (including the Option Plan) cannot exceed 10% of the issued and outstanding common shares of the Corporation from time to time on a non-diluted basis.

The number of common shares subject to any grants of Units that have vested and been settled, or have expired or been forfeited, surrendered, cancelled or otherwise terminated prior to the delivery of the common shares pursuant to a grant of the Units shall, in each case, automatically become available to be made and subject to new grants under the LTIP. Additionally, the number of common shares subject to grants of Units that the Corporation settles in cash in lieu of settlement in common shares shall automatically become available to be made the subject of new grants under the LTIP.

Under the LTIP, the Corporation may not provide financial assistance to Participants in connection with the exercising of Units by Participants. If a RSU Participant ceases to be an eligible person under the LTIP for any reason, including, without limitation, as a result of his or her resignation, voluntary or involuntary termination, retirement, disability, or death, any

unvested RSUs held by such RSU Participant shall expire. Each DSU Participant is entitled to terminate his or her participation in the LTIP by filing a termination notice with the designated officer of the Corporation. Thereafter, any portion of such DSU Participant's annual board retainer payable and all subsequent annual board retainers shall be paid in cash (except that for U.S. DSU Participants, such termination shall not take effect until the immediately following calendar year). The rights or interests of a Participant under the LTIP may not be assigned, encumbered, pledged, transferred or alienated in any way, except to the extent that certain rights may pass to a beneficiary or legal representative upon death of a Participant, by will or by the laws of succession and distribution.

Subject to any necessary regulatory approval, the Board may, in its sole discretion, suspend or terminate the Plan at any time or amend the terms and conditions of the Plan or of any Units granted under the Plan and any grant agreement, without Shareholder approval, provided that such amendment will not adversely alter or impair any Units previously granted except as permitted by the terms of the LTIP; will be in compliance with applicable law; and will be subject to Shareholder approval, where required by law, the requirements of TSX or the LTIP. For example, the Board may approve amendments relating to the Plan or the Units, without Shareholder approval, to the extent such amendment:

- (a) is for the purposes of curing any ambiguity, error or omission in the Plan;
- (b) is necessary to comply with applicable law or the requirements of the TSX or any other applicable securities exchange;
- (c) is an amendment to the Plan respecting administration and eligibility for participation under the Plan;
- (d) alters, extends or accelerates the terms of vesting applicable to any Units;
- (e) changes the termination provisions of a Unit or the Plan which does not entail an extension beyond the original expiry date of a Unit;
- (f) is an amendment to the Plan of a "housekeeping nature"; or
- (g) does not require Shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of the TSX or any other applicable securities exchange).

Notwithstanding the foregoing, the Board shall be required to obtain Shareholder approval in order to: (i) amend the number of common shares issuable under the LTIP; (ii) cancel and reissue any Units; (iii) add any form of financial assistance by the Corporation for the exercise of a Unit; (iv) make any amendment that results in a material or unreasonable dilution in the number of outstanding common shares or any material benefit to a Participant; (v) extend the time for which a Unit expires beyond its original expiry date; (vi) amend the provisions in the LTIP on participation limits, assignment and amendment; (vii) change the class of eligible Participants to the LTIP which would have the potential of broadening or

increasing participation by insiders of the Corporation, or (viii) increase the participation limits of non-employee directors (individually or as a group) or insiders.

### **Vote Required**

The full text of the LTIP Resolution to approve amendments to, and the unallocated Units under, the LTIP is set out in Appendix “C-1” to this Circular. Pursuant to the policies of the TSX, the LTIP Resolution must be approved by a majority of the votes cast by Shareholders, in person or by proxy, at the Meeting.

The Board recommends that Shareholders vote “**FOR**” the approval of the LTIP Resolution.

**In the absence of a contrary instruction, the persons designated by management of the Corporation in the enclosed form of proxy intend to vote FOR the LTIP Resolution.**

### **BOARD OF DIRECTORS - NOMINEES**

#### **Majority Voting**

Effective April 14, 2014, the Board adopted an amended and restated majority voting policy. In an uncontested election of directors of the Corporation, each director shall be elected by the vote of a majority of the shares represented in person or by proxy at the Shareholder’s meeting convened for such election of directors. If any nominee for director receives a greater number of votes “withheld” from his or her election than votes “for” such election, that director shall immediately tender his or her resignation to the Chairman of the Board following the meeting.

The Corporate Governance Committee shall consider any such offer of resignation and recommend to the Board whether or not to accept the resignation. In its deliberations, the Corporate Governance Committee may consider any stated reasons as to why Shareholders “withheld” votes from the election of the relevant director, the length of service and the qualifications of the director whose resignation has been tendered, such director’s contributions to the Corporation, the Corporation’s corporate governance policies, available alternatives to cure the underlying cause of the withheld votes, the overall composition of the Board (including the current mix of skills and attributes of the Board), whether accepting the resignation would cause the Corporation to fail to meet any applicable listing, statutory or regulatory requirements, and any other factors that the members of the Corporate Governance Committee consider relevant.

The Board shall act on the Corporate Governance Committee’s recommendation within ninety (90) days following the applicable Shareholders’ meeting, after considering the factors identified by the Corporate Governance Committee and any other factors that the members of the Board consider relevant. The Board is expected to accept the resignation except in situations where extenuating circumstances would warrant the director continuing to serve on the Board. The resignation of a director will be effective when accepted by the Board. Any director who

tenders his or her resignation pursuant to this policy will not participate in the Corporate Governance Committee's consideration regarding whether to recommend acceptance to the Board or the Board's consideration regarding whether to accept the tendered resignation.

Following the Board's decision on the resignation, the Board shall promptly disclose, via press release, a copy of which shall be concurrently delivered to the TSX, its decision regarding whether to accept or reject the director's resignation. Should the Board decline to accept the resignation, it shall fully state in the press release its reasoning behind such decision.

Subject to any applicable corporate law restrictions or requirements, if a resignation is accepted, the Board may leave the resultant vacancy unfilled until the next annual general meeting. Alternatively, it may fill the vacancy through the appointment of a new director whom the Board considers to merit the confidence of the Shareholders, or it may call a special meeting of Shareholders at which one or more Management nominees would be presented a to fill the vacant position or positions, as applicable.

### **Nominees**

The biographies and notes below set out, in respect of each nominee to the Board, the name and municipality of residence of each person proposed to be nominated for election as a director, the period or periods during which the nominee has served as a director of the Corporation, the nominee's principal occupation and all other positions with the Corporation and any affiliate thereof now held by the nominee, if any, and the number of common shares beneficially owned by the nominee or over which the nominee exercises control or direction (in all cases, whether directly or indirectly) as of April 13, 2017. The statement as to share ownership, control and direction is, in each instance, based upon information furnished by said nominee.

## LISA COLLERAN



**Director**

**Residence:** Basking Ridge, New Jersey, United States

**Occupation:** Corporate Director

**Committee Memberships:** Nil

**Director Since:** January 2017

**Number of Shares beneficially owned, controlled or directed, directly or indirectly:** Nil

Ms. Colleran was Chief Executive Officer and President of LifeCell Corporation. Under her leadership, LifeCell, in partnership with surgeons, drove changes in treatment paradigms for numerous procedures, resulting in improvement in clinical outcomes. During her tenure at LifeCell, revenues increased from U.S.\$25 million to U.S.\$400 million and the company was involved in several transactions. Prior to LifeCell, Ms. Colleran spent over twenty (20) years at Baxter Healthcare in various commercial and general management roles. She is the founder of LNC Advisors and currently serves on the board of directors of Establishment Labs and Ariste Medical.

## ANTHONY GRIFFITHS



**Director**

**Residence:** Toronto, Ontario, Canada

**Occupation:** Corporate Director

**Committee Memberships:** Chair of Compensation Committee, Member of Governance Committee.

**Director Since:** June 2002

**Number of Shares beneficially owned, controlled or directed, directly or indirectly:** 27,981

Mr. Griffiths 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 a director of Fairfax Financial Holdings Limited and Fairfax India Holdings Corporation.

Notwithstanding the maximum director term limit of ten (10) years and mandatory retirement age of 72 set forth in the board tenure policy, the Governance Committee has, in accordance with the terms of such policy, recommended that the Board extend Mr. Griffith's term past the mandatory retirement age, as the Corporation continues its board revitalization and CEO transition process. Mr. Griffiths brings guidance and continuity and acts as an invaluable resource to new directors through this transition process. See "Board Tenure Policy" description in Appendix "A" hereto.

## KAREN A. LICITRA



**Director**

**Residence:** Stuart, Florida, United States

**Occupation:** Corporate Director

**Committee Memberships:** Member of Compensation Committee

**Director Since:** October 2016

**Number of Shares beneficially owned, controlled or directed, directly or indirectly:** Nil

Ms. Licitra most recently served as Corporate Vice President Worldwide Government Affairs & Policy of Johnson & Johnson before retiring in August 2015. Prior to her role in governmental affairs, she was Worldwide Chairman, Global Medical Solutions Group within Johnson & Johnson's Medical Device and Diagnostics segment. She also led the Medical Device & Diagnostics center of excellence for regulatory affairs. Before her rise to Worldwide Chairman, Ms. Licitra was Company Group Chairman for Johnson & Johnson and Worldwide Franchise Chairman for Ethicon Endo-Surgery, Inc. and Johnson & Johnson Medical, Canada. She is a member of the board of directors of SI-Bone, Inc. and was a member of the Board of Trustees for the Saint Peter's Healthcare System. Ms. Licitra also served as Chair Emeritus for the Campaign to End Obesity, which advances U.S. national policy and platforms to combat obesity, as well as Chair of the Campaign's Advisory Council. She was named to Fortune's 50 Most Powerful Women in Business list in 2012.

## WILLIAM A. MACKINNON



**Chairman of the Board**

**Residence:** Toronto, Ontario, Canada

**Occupation:** Corporate Director

**Committee Memberships:** Chair of the Audit Committee

**Director since:** May 2009

**Number of Shares beneficially owned, controlled or directed, directly or indirectly:** Nil

Mr. Mackinnon was Chief Executive Officer of KPMG (Canada) LLP from April 1999 until his retirement in December 2008. Mr. Mackinnon joined KPMG (Canada) LLP in 1971, became a partner in 1977, the Toronto Managing Partner in 1988 and the Greater Toronto Managing Partner in 1992. He obtained the Fellow Chartered Accountant designation from the Institute of Chartered Accountants of Ontario in 1994 and, during the period between 1999 and 2002, became a member of the board of directors of each of KPMG Canada, KPMG International and KPMG Americas. He is an active volunteer and currently serves as a member of the board of directors of the Toronto Community Foundation and Roy Thomson Hall. Mr. Mackinnon is also a director of Telus Corp., Pioneer Petroleum, and the Public Service Pension Investment Board. Mr. Mackinnon holds a Bachelor of Commerce from the University of Manitoba.

## RICK MANGAT



**Director, President & CEO**  
**Residence:** Aurora, Ontario, Canada  
**Occupation:** Director, President & CEO, Novadaq Technologies Inc.  
**Committee Memberships:** None  
**Director Since:** February 2017  
**Number of Shares beneficially owned, controlled or directed, directly or indirectly:** 284,055

Mr. Mangat co-founded NOVADAQ in April of 2000 and is a co-inventor of the SPY Imaging Systems. 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 SPY Imaging and related intellectual property. Mr. Mangat led the research, development and commercialization teams at NOVADAQ from bench-top through commercial use of the NOVADAQ's fluorescence imaging systems. Mr. Mangat, former Senior Vice President of Sales and Marketing of the Corporation, succeeded Dr. Menawat as President and CEO on July 6, 2016. Mr. Mangat was appointed as a director of the Corporation on February 28<sup>th</sup>, 2017. Mr. Mangat holds a Bachelor of Science from the University of Toronto and a PhD from the University of Manitoba.

## PATRICE MERRIN



**Director**  
**Residence:** Toronto, Ontario, Canada  
**Occupation:** Corporate Director  
**Committee Memberships:** Chair of Governance Committee and Member of Audit Committee  
**Director Since:** March 2015  
**Number of Shares beneficially owned, controlled or directed, directly or indirectly:** 2,000

Ms. Merrin is a corporate director and is currently a non-executive director of Glencore PLC, Stillwater Mining Company and Kew Media Group Inc. Ms. Merrin was Chairman of the Board of CML HealthCare Inc., a leading provider of medical laboratory testing services, from 2011 to 2013, having served as a director since 2008. She was a director of Ornge, the Province of Ontario's air ambulance and medical transport service, from 2012 to 2015. Ms. Merrin served as President, CEO and Director of Luscar Ltd., then owned equally by Sherritt International Corporation and Ontario Teachers' Pension Plan Board, from 2005 to 2006, prior to which she served as Executive Vice-President and Chief Operating Officer of Sherritt International from 1999 to 2004. She co-chairs the Leadership Council of Perimeter Institute for Theoretical Physics as well as its Emmy Noether Circle which aims to support and fund women in physics and mathematical physics at Perimeter. Ms. Merrin holds a BA from Queen's University and completed the Advanced Management Programme at INSEAD.

## THOMAS WELLNER



### Director

**Residence:** Toronto, Ontario, Canada

**Occupation:** President and CEO, Revera Inc.; President, WellCap Advisors, Ltd.

**Committee Memberships:** Member of Audit Committee and Governance Committee

**Director Since:** May 2014

**Number of Shares beneficially owned, controlled or directed, directly or indirectly:** 10,300

Mr. Wellner is the President and CEO of Revera Inc., which is a leading provider of seniors' accommodation, care and services, with responsibility for a network of 50,000 employees, 500 sites across Canada, the U.S. and the UK. Mr. Wellner's holding company, WellCap Advisors Limited, provides strategic guidance to a number of clients and also invests in healthcare and technology companies. Prior to his role at Revera, Mr. Wellner was co-CEO of LifeLabs, Canada's largest laboratory services company, where he was responsible for leading the integration of CML HealthCare Inc. into the LifeLabs organization. Mr. Wellner was President and Chief Executive Officer of CML Healthcare Inc. where he led the company through a transformational re-assessment, culminating in both the signing of a \$1.2B transaction to crystalize \$300,000,000 in shareholder value as well as the merger into LifeLabs. He has also worked with private equity investors on a startup as President and CEO of Therapure Biopharma. He currently serves on the boards of Cipher Pharmaceuticals, Freshbooks, Inc. and Atlantic Healthcare Plc. Mr. Wellner holds a Bachelor of Science with Honours in Life Sciences from Queens University and he holds an Institute of Corporate Directors, ICD.D designation from the Rotman School of Business.

## ROBERT S. WHITE



**Director**

**Residence:** Plymouth, Minnesota, United States

**Occupation:** President, CEO and director of Entellus Medical Inc.

**Committee Memberships:** Member of Compensation Committee

**Director Since:** August 2014

**Number of Shares beneficially owned, controlled or directed, directly or indirectly:** Nil

Mr. White is a medical technology industry veteran with over twenty-five (25) years of leadership experience gained through numerous positions with Medtronic, Instromedix-LifeWatch, ALARIS Medical Systems, Eli Lilly and General Electric. Mr. White joined Entellus Medical Inc. as President and Chief Operating Officer in November 2014 and was promoted to President and Chief Executive Officer in April of 2015, along with being appointed to its board of directors. Previously, Mr. White was the President and Chief Executive Officer of TYRX, a privately-held company commercializing innovative, implantable combination drug/device products designed to reduce surgical site infections, until it was acquired by Medtronic in March 2014. Prior to joining TYRX, Mr. White served as President of Medtronic Kyphon following the U.S.\$3.9 billion acquisition of the spinal treatment business. During his time with Medtronic, Mr. White also served as President of Physio Control, Vice President of Corporate Development, and Vice President of U.S. Sales and Global Marketing where he was responsible for all commercial operations for the Medtronic Cardiac Rhythm Management business. Mr. White started his career with General Electric and joined Eli Lilly and Company in 1989. Mr. White serves on the boards of directors of Entellus Medical Inc., AtriCure, Inc. and HyperBranch Medical Technology, Inc. Mr. White holds a B.S. in Aerospace Engineering from the University of Missouri-Rolla and a M.B.A. from Cornell University's Johnson Graduate School of Management.

### Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. Griffiths was a director of AbitibiBowater Inc. until June 2010. The company and certain of its U.S. and Canadian subsidiaries filed for protection in Canada under the *Companies' Creditors Arrangement Act* ("CCAA") and in the United States under Chapter 11 of the United States Bankruptcy Code in April 2009. On December 9, 2010, the company emerged from creditor protection under the CCAA in Canada and Chapter 11 in the United States.

Mr. Griffiths was a director of PreMD Inc. until February 2010, and, in connection with the voluntary delisting of the company's shares from the TSX, cease trade orders were issued in April 2009 requiring all trading in, and all acquisitions of, securities of the company to cease permanently due to the company's failure to file continuous disclosure materials required by Ontario securities law. The cease trade orders are still in effect.

Mr. Griffiths was a director of Jaguar Mining Inc. from May 2004 to June 2013. On December 23, 2013, that company commenced proceedings under the CCAA to complete a recapitalization and financing transaction. Trading of that company's common shares was suspended on December 23, 2013 and those shares were delisted from the TSX on February 10, 2014. On February 7, 2014, the affected unsecured creditors of that company and the Ontario Superior Court of Justice approved that company's plan of compromise and arrangement pursuant to the CCAA, which was implemented effective April 22, 2014.

Other than as noted above, no director or executive officer of the Corporation is, or within the past ten (10) years before the date of this Circular has (i) been a director, chief executive officer or chief financial officer of a company that was subject to a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than thirty (30) consecutive days; or (ii) been a director of a company that, while the nominee was acting in that capacity, made a proposal under legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, trustee or receiver manager appointed to hold its assets; or (iii) was subject to a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than thirty (30) consecutive days that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in that capacity.

## **STATEMENT ON CORPORATE GOVERNANCE PRACTICES**

The statement on corporate governance practices prepared by the Corporate Governance Committee is attached hereto as Appendix "A".

## **COMPENSATION DISCUSSION AND ANALYSIS INTRODUCTION**

This compensation discussion and analysis ("CD&A") describes and explains the Corporation's current policies and practices with respect to the compensation of its named executive officers, being its Chief Executive Officer ("CEO"), the former Chief Executive Officer, Chief Financial Officer ("CFO") and the three most highly compensated executive officers other than the current CEO, former CEO and CFO (collectively with the CEO and CFO, and in certain instances, as the context may require, the former CEO, the "NEOs").

The Corporation's executive compensation program is administered by the Compensation Committee. The Compensation Committee has, as a part of its mandate, responsibility to review the remuneration of the officers of the Corporation, including the NEOs. The Compensation Committee also evaluates the performance of the Corporation's executive officers and reviews the design and competitiveness of the Corporation's incentive compensation programs.

The Compensation Committee believes that executive compensation should be directly linked to performance and the creation of long-term value for the Corporation's Shareholders.

Based on this principle, beginning in fiscal 2015, the Board and the Compensation Committee initiated the next phase in evolving the Corporation's compensation program to better align with the Corporation's long-term business objectives and creation of value for its Shareholders.

This work resulted in significant changes to the short-term and long-term incentives granted to the Corporation's NEOs in order to ensure that performance-based elements are directly linked to the Corporation's key strategic objectives. Accordingly, the Corporation's 2016 compensation program includes, among other things, significant elements tied to specific performance objectives intended to drive long-term performance.

The key features of the Corporation's fiscal 2016 compensation program, in addition to base salary, were:

- (a) The granting of short-term incentives (annual cash bonus) based on the achievement of (i) quantitative metrics, and (ii) qualitative metrics based on corporate, departmental and individual performance in light of the Corporation's strategic imperatives. The quantitative metrics applicable to short-term incentives are described in further detail under the heading "*Elements of Executive Compensation - Cash Compensation - Short Term Incentive Plan*".
- (b) The granting of RSUs pursuant to the Corporation's LTIP which specify pre-established financial and strategic performance vesting criteria that are tied to the Corporation's long-term objectives. The RSUs will be granted each year with updated and revised performance vesting criteria, thereby enabling the Corporation to adapt the performance vesting criteria to the evolving nature of the business of the Corporation. In the event the performance vesting criteria are not achieved, the applicable RSUs will not vest.
- (c) The granting of options pursuant to the Corporation's Option Plan. Combined with RSUs, the options form the Corporation's long-term incentives to the NEOs with an allocation in 2016 of approximately 25% RSUs and approximately 75% options.
- (d) A share ownership guideline that requires NEOs and directors of the Corporation to hold a certain minimum equity value in the Corporation in order to reinforce the importance of aligning the financial interests of the NEOs, directors and Shareholders of the Corporation.

## COMPENSATION PHILOSOPHY AND GOVERNANCE

### Overview

The Corporation's executive compensation philosophy is to provide competitive compensation to attract and retain talented, high-achievers capable of fulfilling the Corporation's strategic and performance objectives. Consistent with this philosophy, the primary objectives of the Corporation's compensation program for its NEOs are to:

- (a) attract and retain talented, high-achieving executives critical to the success of the Corporation and the creation and protection of long-term Shareholder value;
- (b) motivate the Corporation's Management team to meet operating, strategic, financial and non-financial objectives; and
- (c) align the interests of Management and the Corporation's Shareholders by emphasizing performance based compensation that recognizes individual and the Corporation's performance, which help to create long-term Shareholder value.

The philosophy of the Compensation Committee is to maintain total compensation for NEO's between 25<sup>th</sup> percentile and 50<sup>th</sup> percentile of the Corporation's Benchmark Group (see list of companies below under "*Compensation Reports*"). In addition, the Board and the Compensation Committee consider a range of variables when determining and reviewing executive compensation, and while certain individual performance objectives are quantifiable, the Corporation does not use a formulaic approach to evaluate individual objectives and does not attach a fixed weighting to each measure. The Board and the Compensation Committee are of the view that prescriptive formulas and weightings applied to forward looking objectives can lead to unintended consequences that are not in the best interests of the Corporation. Rather, the Board and the Compensation Committee apply their informed judgment as to the relative importance of the measures at their year-end evaluation when assessing each NEO's individual performance. Where qualitative measures are used, they are defined in as detailed manner as possible so that the Board has sufficient information to complete the assessment.

### **Executive Recruiting and Retention**

The Corporation believes that providing competitive overall compensation enables the Corporation to attract and retain qualified executives and other personnel. A competitive, fixed base salary and an at-risk short-term incentive grant in the form of an annual bonus is essential for this purpose. In addition, grants of long-term incentives, in the form of time-vested stock options and performance-based RSUs, serve to further encourage the retention of the Corporation's NEOs while incentivizing Management to create and protect Shareholder value.

### **Aligning Management and Shareholders Interests**

The Corporation's compensation program seeks to align Management interests with Shareholder interests through both short-term and long-term incentives linking compensation to performance. The short-term incentive is an annual cash bonus which is linked to individual, departmental and corporate performance (among other things). Further, long-term incentives of options and RSU grants comprise a significant portion of overall compensation for the Corporation's NEOs. The Compensation Committee believes this is appropriate because it creates a direct correlation between variations in the Corporation's share price (which is based in part on the Corporation's financial performance) and the compensation of its NEOs, thereby aligning the interests of the Corporation's executives and Shareholders.

## **Composition and Role of the Compensation Committee**

The current members of the Compensation Committee are Mr. Anthony Griffiths, Ms. Karen A. Licitra and Mr. Robert White. Each member of the current Compensation Committee is independent within the meaning of National Instrument 58-101 - *Disclosure of Corporate Governance Practices*. Compensation Committee members have direct experience relevant to their responsibilities based on the senior positions held from both current and previous employment positions which provide the skill and experience to make decisions on the suitability of the Corporation's compensation policies and practices.

Among the responsibilities of the Compensation Committee are the following:

- (a) reviewing and making recommendations to the Board with respect to the Corporation's overall compensation and benefits philosophies;
- (b) reviewing and making recommendations to the Board with respect to the Corporation's overall compensation for its NEOs and each element of such compensation, including base salary, short-term incentive grants, long-term incentive grants, and other benefits and perquisites;
- (c) reviewing and approving corporate goals and objectives relevant to the CEO and other members of Management and evaluating their performance in light of such goals and objectives;
- (d) reviewing and making recommendations to the Board with respect to option grants and bonus allocations to eligible non-executive employees;
- (e) administering the Corporation's Option Plan; and
- (f) administering the Corporation's LTIP.

In making its annual recommendations and determinations as to the Corporation's executive compensation, the Compensation Committee receives input from Management, but decisions made by the Compensation Committee in determining compensation for the Corporation's officers and directors are the responsibility of the Compensation Committee and may reflect factors and considerations other than the information and recommendations provided by Management.

None of the members of the Compensation Committee are currently, or were during the financial year ended December 31, 2016, an officer or employee of the Corporation. No member of the Compensation Committee is, or during the financial year ended December 31, 2016 was, indebted to the Corporation or any of its subsidiaries, or to any other entity where such debt is supported by a guarantee, support agreement, letter of credit or other similar arrangement or understanding, provided by the Corporation or its subsidiaries. Except as described or referred to in this Circular, no member of the Compensation Committee has, or had during the financial

year ended December 31, 2016, any material interest in any transaction that has materially affected or would materially affect the Corporation or any of its subsidiaries.

### **Role of Management**

Although the Compensation Committee is responsible for determining and, where necessary, making recommendations to the Board on the compensation of the Corporation's NEOs, the CEO and other members of Management assist the Compensation Committee in this process by compiling information to be used by the Compensation Committee in its compensation determinations, reporting on historical compensation levels and methods within the Corporation, reviewing and reporting on the performance of the non-CEO executive officers and compiling and assessing information respecting compensation levels of officers having similar positions at companies with similar revenues and businesses. Management also assists in advising as to the NEOs performance in relation to their respective entitlements to an annual bonus. See below under "*Elements of Executive Compensation – Cash Compensation – Short-Term Incentive Plan*".

The Compensation Committee believes the CEO provides useful input in advising on recommended levels of compensation for the other NEOs because, due to his frequent interaction with these officers, the CEO is best-positioned to assess their performance and their contribution to the Corporation. While the CEO may attend meetings of the Compensation Committee to provide such advice and recommendations, he is not a member of the Compensation Committee and he is not entitled to vote on matters before the Compensation Committee. The CEO also is not present during in-camera sessions of the Compensation Committee and during discussion of his own compensation, whether at the Compensation Committee or Board level.

### **COMPENSATION REPORTS**

With respect to the financial year ended December 31, 2016, the Compensation Committee retained Meridian Compensation Partners LLC ("**Meridian**") in October 2015 as its external independent compensation advisor to review the Corporation's current executive compensation program. Meridian provided a preliminary report on November 9, 2015 (the "**2016 Report**"), which was reviewed by the Board and Compensation Committee and approved on December 4, 2015. Meridian was paid executive compensation related fees of \$36,000 (excluding tax) for the 2016 Report. The Meridian compensation report was incorporated into the 2016 compensation plan for NEOs and directors. In light of management changes in 2016, Meridian was further engaged in September 2016 to provide an updated analysis for the 2017 compensation plan for NEOs and directors (the "**2017 Report**"). Meridian was paid executive compensation related fees of \$25,834 (excluding tax) for the 2017 Report. There has since been no further employment of external consultants relating to executive employee compensation review.

In connection with the 2016 Report, Meridian assembled a benchmark group of the following 30 companies (collectively, the "**Benchmark Group**") to serve as a comparator for compensation purposes, which was approved by the Compensation Committee on December 4,

2015. The selection criteria for the Benchmark Group were companies in comparable industries and appropriate size and complexity.

| <b>Benchmark Group</b>      |                              |
|-----------------------------|------------------------------|
| Abaxis, Inc.                | HeartWare International Inc. |
| Accuray Incorporated        | Inogen, Inc.                 |
| Analogic Corporation        | Insulet Corporation          |
| Antares Pharma Inc.         | K2M Group Holdings, Inc.     |
| AtriCure, Inc.              | Masimo Corp.                 |
| Atrion Corp.                | Meridian Bioscience, Inc.    |
| Cantel Medical Corp         | Natus Medical Incorporated   |
| Cardiovascular Systems Inc. | Neovasc Inc                  |
| Cerus Corporation           | Nevro Corp.                  |
| Cybertronics Inc.           | Nuvasive Inc.                |
| Cynosure, Inc.              | Nxstage Medical Inc.         |
| Endologix, Inc.             | Rockwell Medical Inc.        |
| Entellus Medical, Inc.      | SurModics, Inc.              |
| Fluidigm Corp.              | Vascular Solutions, Inc.     |
| GenMark Diagnostics, Inc.   | ZELTIQ Aesthetics, Inc.      |

## **ELEMENTS OF EXECUTIVE COMPENSATION**

The Corporation believes the elements of executive compensation, as described below, when combined, form an appropriate mix of compensation because they provide for stable income, in the case of base salary, as well as an appropriate balance between short-term (annual bonus) and long-term incentives (RSU and option grants) to encourage and reward behaviour that creates value for Shareholders. Specific corporate and individual goals are established annually and designed to align with the Corporation's strategic objectives. Performance goals affect RSU and option grants and annual cash bonuses, and are considered in assessing annual salary adjustments.

Performance goals for the financial year ended December 31, 2016 included a number of quantitative metrics, including revenue, gross profit, loss from operations and 30-day volume-weighted average pricing of the Corporation's common shares, as well as a number of

qualitative factors, including company productivity, overall strategic guidance of the Corporation, special transactions, and individual-specific goals established between the NEOs and the Compensation Committee.

## **Cash Compensation**

### *Base Salary*

The Compensation Committee recommends the base salary of the Corporation's senior executives, including the President and CEO, for approval by the Board. The Compensation Committee sets the base salary compensation for senior executive officers (other than the President and CEO) on the recommendation of the President and CEO. Annual salaries for all senior executives are determined based on level of responsibility and individual performance, and the Compensation Committee considers the executive's experience and established or expected performance. The Compensation Committee reviews and sets these salaries in December of each year.

### *Short-Term Incentive Plan*

The Corporation recently adopted a formal short-term incentive plan ("**STIP**") for Management, which took effect in the financial year ended December 31, 2016. The STIP is intended to align executive compensation to Shareholders' interests, to be competitive in attracting and retaining talent and provide compensation to motivate sustained performance of Management and support the achievement of corporate, department and individual objectives. The STIP is designed to reward Management with an annual cash award based on the achievement of corporate, departmental and individual objectives. Awards are based on performance but are not formulaic and the STIP does not utilize a set weighting for calculating the short-term incentive payments.

Quantitative performance objectives for the financial year ended December 31, 2016 included the achievement of the Corporation's revenue target and the maintenance of the Corporation's gross profit level. Departmental and individual goals, which may be quantitative or qualitative in nature, were also established for each individual NEO by the Compensation Committee in order to align corporate/individual goals with the Corporation's strategic imperatives, and included objectives such as research & product development, company productivity, revenue growth and long-term strategic guidance of the Corporation.

STIP payments are based on the Compensation Committee's review and assessment of:

- (a) whether or not Management successfully met or exceeded the established corporate, departmental and individual performance metrics and goals;
- (b) Management's decisions and actions and whether or not they are aligned with the Corporation's long-term growth strategy and created value for Shareholders;

- (c) whether any goals and objectives were not met because Management made decisions in the best long-term interests of the Corporation or due to factors outside of Management's control; and/or
- (d) additional initiatives undertaken by Management, which were not contemplated in the initial objectives.

*Short-Term Incentive Plan - Performance & Payments*

The Compensation Committee reviewed the performance of Management based on quantitative metrics (revenue and gross profit), as well as a number of qualitative factors, including company productivity, overall strategic guidance of the Corporation, special transactions, and individual-specific goals established between the NEOs and the Compensation Committee. Based on such review, the Compensation Committee approved the following short term incentive payments, as a percentage of base salary, for the financial year ended December 31, 2016:

| Position                                                                    | Target/Max.       | Actual |
|-----------------------------------------------------------------------------|-------------------|--------|
| Rick Mangat <sup>1</sup><br>President and Chief Executive Officer           | 80%/200%          | 72%    |
| Roger Deck<br>Chief Financial Officer                                       | 60%/120%          | 54%    |
| Thomas Tamberrino<br>Vice-President of Sales and Marketing                  | 138% <sup>2</sup> | 110%   |
| Derrick Guo<br>General Counsel and Corporate Secretary                      | 70%/140%          | 63%    |
| Lori Swalm<br>Sr. Vice-President, Regulatory, Clinical and Economic Affairs | 70%/140%          | 49%    |

(1) Rick Mangat, former Senior Vice President of Sales and Marketing, succeeded Dr. Menawat as President and CEO on July 6, 2016. The actual STIP payment received by Dr. Mangat for financial year ended December 31, 2016 reflects a blended rate based upon the time served in each respective position.

(2) Mr. Tamberrino's STIP target and actual payment are based on the Corporation's sales commission plan.

The following targets, as a percentage of base salary, were approved for each NEO for the current financial year ending December 31, 2017:

| Position   | Target  | Maximum  |
|------------|---------|----------|
| CEO        | 80%     | 160%     |
| Other NEOs | 50-100% | 100-200% |

*Comparison to Benchmark Group*

Overall short-term cash compensation, consisting of base salaries and short-term incentives, for the top 3 NEOs was set at 50<sup>th</sup> percentile of the Benchmark Group with a further 2% decrease to base salaries offset by an increase to target annual cash bonus. The short-term cash compensation for remaining NEOs was set below the 25<sup>th</sup> percentile with a further 5%

decrease from base salaries offset by an increase to target annual cash bonus. The shift from base salaries to annual cash bonus was to account for the Corporation's relatively lower revenue (24<sup>th</sup> percentile) compared to the Benchmark Group and to incentivize Management to achieve the targeted 30% revenue growth in fiscal 2016.

### **Equity Compensation**

The Corporation's Option Plan is intended to serve as a long-term incentive plan that will align the interests of the Corporation's directors, officers, employees and consultants with the interests of the Shareholders. Once annually, the CEO develops a list of options to be granted to executives based on the Corporation's performance, personal performance and industry benchmarks. The CEO submits this list to the Compensation Committee who reviews in-committee and further recommends to the Board for approval. For further information regarding the Option Plan, please see the section entitled "*Equity Compensation Plans*" in this Circular.

The LTIP is an incentive-based equity compensation program that provides for the grant RSUs and DSUs. The DSUs are intended for directors of the Corporation who may elect to receive up to 100% of their annual board retainer in DSUs. The number of RSUs and DSUs granted at any particular time pursuant to the LTIP is calculated by dividing the dollar amount of such grant by the market value of a NOVADAQ common share on the date of grant, which is equal to the volume weighted average trading price of all NOVADAQ common shares traded on the NASDAQ Global Market (or other exchange where the common shares are listed) for the five (5) trading days immediately preceding the date of grant. There were 220,700 RSUs granted during the financial year ended December 31, 2016. As at December 31, 2016, there were 245,455 RSUs outstanding. There were 75,360 DSUs granted during the year ended December 31, 2016 and 62,800 DSUs outstanding as at December 31, 2016.

In addition to the annual grant of stock options under the Option Plan, the CEO and other NEOs receive RSUs under the LTIP, which are meant to serve as an incentive to create value and ensure that the long-term interests of the Corporation are aligned with those of the Shareholders. The Corporation's practice is to apply performance-based vesting conditions to all RSU grants issued to the CEO and other NEOs in order to ensure these grants are directly linked to long-term objectives in relation to revenue growth and profitability.

The RSUs are granted each year with performance metrics that include both quantitative and qualitative requirements, which are established by the Compensation Committee. The rolling performance metrics enable the Corporation to adapt the metrics to the evolving nature of the business of the Corporation in order to ensure that the incentives continue to create value for the Corporation's Shareholders on a long-term basis.

The Compensation Committee and the Board determined that the performance conditions were not sufficiently achieved by the Corporation in the financial year ended December 31, 2016, and accordingly, the 1/3 of the RSU grants for fiscal year ended December 31, 2016 did not vest on first vesting date.

For further information regarding the LTIP, please see the section entitled “*Equity Compensation Plans*” in this Circular.

#### *Comparison to Benchmark Group*

Equity compensation was set at the 50<sup>th</sup> percentile of the Benchmark Group for all NEOs, with a 25%/75% weighting between RSUs and Options, respectively. Total compensation for the top 3 NEOs was approximately equal to 50<sup>th</sup> percentile of the Benchmark Group and between the 25<sup>th</sup> percentile and the 50<sup>th</sup> percentile for the remaining NEOs.

#### **Perquisites and Other Benefits**

The perquisites provided to the Corporation’s NEOs in 2016 were limited to car allowances. None of the NEOs received perquisites that amounted to greater than \$10,000.

### **RISKS**

The Corporation does not purchase, or permit any NEO or director to purchase, financial instruments, including prepaid variable forward contracts, equity swaps, collars, or units of exchange funds that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEO or director.

The Compensation Committee meets annually to review and recommend to the Board the CEO’s plan for compensation of directors and officers. The Compensation Committee also meets periodically throughout the year to address issues of share compensation grants, compensation for new senior employees, and to review any reports provided by compensation consultants. In order to identify and mitigate compensation policies and practices that could encourage a NEO at a principal business unit or division to take inappropriate or excessive risks, the Corporation ensures that its Board has oversight, through the Compensation Committee, regarding compensation metrics that are aligned with long term value growth of the Corporation. The Corporation has hired an external compensation consultant to ensure that its compensation policies and practices are aligned with industry standards, and are reasonably unlikely to have a material adverse effect on the Corporation.

### **SHARE OWNERSHIP GUIDELINES**

In order to ensure the interests of Management and directors are aligned with the interests of the Shareholders, the Board approved the adoption of share ownership guidelines in December of 2015, which need to be met by current directors and named executive officers by December 2018. New executives are expected to meet the requirements within three (3) years following the commencement of their employment as an executive with the Corporation.

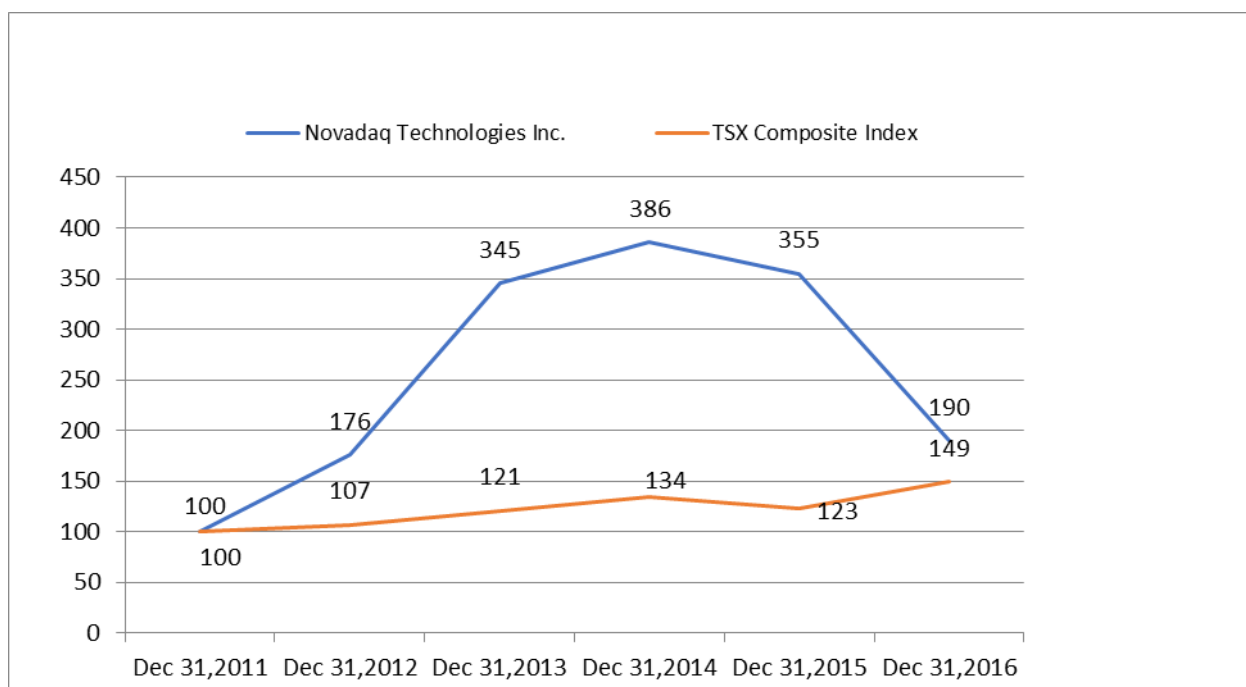
The guidelines for covered persons, expressed as a multiple of their current annual base salary or retainer (as applicable), are as follows:

| POSITION                       | MINIMUM OWNERSHIP |
|--------------------------------|-------------------|
| Directors                      | 3 x Retainer      |
| Chief Executive Officer        | 4 x Base Salary   |
| Other Named Executive Officers | 1 x Base Salary   |

### SHAREHOLDER RETURN PERFORMANCE GRAPH

Below is a line graph that compares (a) the yearly cumulative total Shareholder return on the Corporation's common shares with (b) the cumulative total return of the TSX Composite Index for the period of time indicated, assuming an initial investment of \$100, from 2011 through to 2016 inclusive. The trend shown in the above graph does not necessarily correspond to the Corporation's compensation to its NEOs for the financial year ended December 31, 2016 or for any prior fiscal periods. The trading price of the Corporation's common shares is subject to fluctuation based on several factors, many of which are outside the control of the Corporation. In determining compensation, the Corporation strives to be competitive in order to attract and retain talented high-achievers capable of achieving the Corporation's strategic and performance objectives. See above under "*Compensation Philosophy and Governance*".

| AS AT DECEMBER 31         | Dec<br>31,2011 | Dec<br>31,2012 | Dec<br>31,2013 | Dec<br>31,2014 | Dec<br>31,2015 | Dec<br>31,2016 |
|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Novadaq Technologies Inc. | 100            | 176            | 345            | 386            | 355            | 190            |
| TSX Composite Index       | 100            | 107            | 121            | 134            | 123            | 142            |



## SUMMARY COMPENSATION TABLE

The following tables provide information respecting compensation received in or in respect of the financial year ended December 31, 2016 by each of the Corporation's NEOs, who are the following executive officers of the Corporation: (a) the current CEO, (b) the former CEO, (c) the CFO and (d) the other three most highly compensated executive officers during the financial year ended December 31, 2016.

All values shown in the table below are stated in U.S. dollars.

| Name and Principal Position                                                               | Year                                | Salary                        | Option-Based Awards             | Share - Based Awards  | Employee Share Purchase Plan <sup>(2)</sup> | Annual Incentive Plans <sup>(2)</sup> | All Other Compensation <sup>(2)(3)(4)</sup> | Total Compensation                  |
|-------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------|---------------------------------|-----------------------|---------------------------------------------|---------------------------------------|---------------------------------------------|-------------------------------------|
|                                                                                           |                                     | \$                            | \$                              | \$                    | \$                                          | \$                                    | \$                                          | \$                                  |
| Mr. Rick Mangat<br>President and Chief Executive Officer <sup>(1)</sup>                   | 2016<br>2015<br>2014                | 397,625<br>285,145<br>222,725 | 521,353<br>399,200<br>400,800   | 171,361<br>Nil<br>Nil | Nil<br>Nil<br>Nil                           | 286,290<br>135,986<br>104,058         | 5,673<br>5,866<br>6,790                     | 1,382,302<br>826,197<br>734,374     |
| Dr. Arun Menawat<br>Former Chairman, President and Chief Executive Officer <sup>(1)</sup> | 2016<br>2015<br>2014                | 249,500<br>483,847<br>390,222 | 1,401,043<br>598,800<br>601,200 | 460,612<br>Nil<br>Nil | 3,505<br>7,248<br>4,877                     | 249,560<br>391,727<br>259,893         | 85,471<br>7,039<br>8,148                    | 2,449,691<br>1,488,661<br>1,264,341 |
| Mr. Roger Deck<br>Chief Financial Officer                                                 | 2016<br>2015<br>2014                | 299,200<br>255,131<br>206,428 | 432,191<br>399,200<br>300,600   | 142,035<br>Nil<br>Nil | Nil<br>Nil<br>Nil                           | 161,568<br>121,922<br>71,820          | 4,538<br>4,693<br>5,432                     | 1,039,533<br>780,945<br>584,281     |
| Mr. Thomas Tamberrino<br>Vice President, Sales and Marketing                              | 2016<br>2015<br>2014                | 200,000<br>200,000<br>175,000 | 367,382<br>274,450<br>300,600   | 330,894<br>Nil<br>Nil | 3,000<br>3,000<br>2,625                     | 219,999<br>161,282<br>60,000          | 7,200<br>7,200<br>7,200                     | 1,128,475<br>645,932<br>545,425     |
| Mr. Derrick Guo<br>General Counsel and Corporate Secretary                                | 2016<br>2015<br>2014 <sup>(4)</sup> | 199,880<br>136,868<br>92,210  | 459,459<br>274,450<br>150,000   | 162,857<br>Nil<br>Nil | Nil<br>Nil<br>Nil                           | 125,924<br>61,818<br>31,689           | Nil<br>Nil<br>Nil                           | 984,120<br>473,136<br>273,899       |
| Ms. Lori Swalm<br>Sr. Vice President Regulatory, Clinical and Economic Affairs            | 2016<br>2015<br>2014                | 225,000<br>200,000<br>175,000 | 367,382<br>274,450<br>200,400   | 120,725<br>Nil<br>Nil | 3,309<br>3,000<br>2,581                     | 110,250<br>82,548<br>55,000           | 7,200<br>7,200<br>7,200                     | 833,866<br>567,198<br>437,600       |

- (1) Dr. Menawat resigned as Chairman, President and Chief Executive Officer of the Corporation on July 6, 2016. Rick Mangat, former Senior Vice President of Sales and Marketing, succeeded Dr. Menawat as President and CEO on the same date. Mr. Mangat became a director of the Corporation on February 28<sup>th</sup>, 2017 and will not receive any compensation for his role as a director.
- (2) All amounts have been actually paid and those amounts paid in Canadian dollars have been translated at the average exchange rate during 2016 of 1.3221 Canadian dollars per US\$1.00.
- (3) "All Other Compensation" comprises car allowances paid to all NEOs, in addition to sales commissions paid to Mr. Tamberrino.
- (4) Mr. Guo joined the Corporation in May 2014 as corporate counsel and his annualized salary for 2014 was \$125,137. Mr. Guo became an NEO in the financial year ended December 31, 2015.

### **Short-Term Incentive Payments**

The Summary Compensation Table reports all amounts earned for the financial year ended December 31, 2016. Annual incentive payments were paid as cash bonuses to NEOs on March 15<sup>th</sup>, 2017 based on corporate and individual performance, as recommended by the CEO and approved by the Board.

### **Option-Based Awards**

Executive option-based awards, granted on May 18, 2016, utilized the Black-Scholes model to determine the fair market value of US\$4.97 per option. The Black-Scholes model was used to determine the fair market value of executive option-based rewards because the Corporation's option-based award plan has standard structure and vesting conditions and the Black-Scholes model is the standard model used within the industry for accounting for equity based payments. The input factors to determine the value were volatility of 50%, exercise price of CA\$12.59, interest rate of 1.14%, and an expected life of 6.6 years. In converting values from Canadian dollars to U.S. dollars, the Corporation utilized an exchange rate of 1.3023

The Corporation did not, at any time during the 2016 financial year, adjust, amend, cancel, replace or significantly modify the exercise price of options previously awarded to, earned by, paid to, or payable to, a NEO.

### **All Other Compensation**

All other compensation comprises car allowances for business use of personal vehicles.

### **Long-Term Incentive Plan**

The RSU grants under the LTIP for 2016 were subject to performance based vesting conditions tied to the quantitative performance of the Corporation and such performance metrics were approved by the Compensation Committee. The Compensation Committee and the Board determined that the performance conditions were not sufficiently achieved by the Corporation in the financial year ended December 31, 2016, and accordingly, the 1/3 of the RSU grants for fiscal year ended December 31, 2016 did not vest on first vesting date.

### **Pension Plan Benefits**

The Corporation does not offer pension plans including defined benefit or defined contribution plans to employees, nor does it provide compensation related to any type of pension plan.

## INCENTIVE PLAN AWARDS

### Outstanding Equity-Based Awards

The following table provides information regarding the equity based awards for each NEO outstanding as of December 31, 2016.

The process the Corporation uses to grant option-based awards to executive officers is described in the “*Stock Options*” section of the CD&A.

All values shown in the table below are stated in Canadian dollars unless otherwise noted.

| Name                                                                                                      | Share-Based Awards | Number of Securities underlying unexercised options                                      | Option exercise price                                                    | Option expiration date                                                                                           | Value of unexercised in-the-money options                                       | Number of RSUs that have not vested | Market or payout value of share-based awards that have not vested | Market or payout value of share-based awards that have not been paid out or distributed |
|-----------------------------------------------------------------------------------------------------------|--------------------|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
|                                                                                                           | (\$)               | (#)                                                                                      | (\$)                                                                     | *                                                                                                                | (\$)                                                                            | (#)                                 |                                                                   |                                                                                         |
| Mr. Rick Mangat,<br>Director,<br>President<br>and Chief<br>Executive<br>Officer <sup>(1)</sup>            | 171,361            | 25,000<br>60,000<br>30,000<br>25,000<br>50,000<br>30,000<br>40,000<br>80,000<br>104,900  | 6.50<br>2.50<br>2.75<br>4.15<br>6.47<br>14.65<br>17.44<br>12.93<br>12.59 | 17-Aug-17<br>19-Mar-19<br>2-Apr-20<br>20-May-21<br>23-May-22<br>22-May-23<br>21-May-24<br>13-May-25<br>18-May-26 | 74,750<br>419,400<br>202,200<br>133,500<br>151,000<br>Nil<br>Nil<br>Nil<br>Nil  | 17,530                              | 166,360                                                           | 166,360                                                                                 |
| Dr. Arun Menawat,<br>Former<br>Chairman,<br>President<br>and Chief<br>Executive<br>Officer <sup>(1)</sup> | 460,412            | 50,000<br>90,000<br>50,000<br>25,000<br>90,000<br>60,000<br>60,000<br>120,000<br>281,900 | 6.50<br>2.50<br>2.75<br>4.15<br>6.47<br>14.65<br>17.44<br>12.93<br>12.59 | 17-Aug-17<br>19-Mar-19<br>2-Apr-20<br>20-May-21<br>23-May-22<br>22-May-23<br>21-May-24<br>13-May-25<br>18-May-26 | 149,500<br>629,100<br>337,000<br>133,500<br>271,800<br>Nil<br>Nil<br>Nil<br>Nil | 47,120                              | 447,169                                                           | 447,169                                                                                 |
| Mr. Roger Deck,<br>Chief<br>Financial<br>Officer                                                          | 142,035            | 25,000<br>30,000<br>25,000<br>35,000<br>30,000<br>30,000<br>80,000<br>86,960             | 6.50<br>2.75<br>4.15<br>6.47<br>14.65<br>17.44<br>12.93<br>12.59         | 17-Aug-17<br>2-Apr-20<br>20-May-21<br>23-May-22<br>22-May-23<br>21-May-24<br>13-May-25<br>18-May-26              | 74,750<br>202,200<br>133,500<br>105,700<br>Nil<br>Nil<br>Nil<br>Nil             | 14,530                              | 137,889                                                           | 137,889                                                                                 |
| Mr. Thomas Tamberrino<br>Vice<br>President,<br>Sales and<br>Marketing                                     | 330,894            | 100,000<br>30,000<br>30,000<br>55,000<br>73,920                                          | 8.78<br>14.65<br>17.44<br>12.93<br>12.59                                 | 4-Jan-23<br>22-May-23<br>21-May-24<br>13-May-25<br>18-May-26                                                     | 71,000<br>Nil<br>Nil<br>Nil<br>Nil                                              | 33,850                              | 321,236                                                           | 321,236                                                                                 |

| Name                                                                            | Share-Based Awards | Number of Securities underlying unexercised options      | Option exercise price                            | Option expiration date                                                     | Value of unexercised in-the-money options     | Number of RSUs that have not vested | Market or payout value of share-based awards that have not vested | Market or payout value of share-based awards that have not been paid out or distributed |
|---------------------------------------------------------------------------------|--------------------|----------------------------------------------------------|--------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
|                                                                                 | (\$)               | (#)                                                      | (\$)                                             | *                                                                          | (\$)                                          | (#)                                 |                                                                   |                                                                                         |
| Mr. Derrick Guo<br>General Counsel and Corporate Secretary                      | 162,857            | 30,000<br>55,000<br>99,690                               | 17.44<br>12.93<br>12.59                          | 21-May-24<br>13-May-25<br>18-May-26                                        | Nil<br>Nil<br>Nil                             | 16,660                              | 158,103                                                           | 158,103                                                                                 |
| Ms. Lori Swalm<br>Sr. Vice President, Regulatory, Clinical and Economic Affairs | 120,725            | 17,500<br>35,000<br>20,000<br>20,000<br>55,000<br>73,920 | 4.15<br>6.47<br>14.65<br>17.44<br>12.93<br>12.59 | 20-May-21<br>23-May-22<br>22-May-23<br>21-May-24<br>13-May-25<br>18-May-26 | 93,450<br>105,700<br>Nil<br>Nil<br>Nil<br>Nil | 12,350                              | 117,201                                                           | 117,201                                                                                 |

(1) Dr. Menawat's resigned as Chairman, President and Chief Executive Officer of the Corporation on July 6, 2016. Rick Mangat, former Senior Vice President of Sales and Marketing, succeeded Dr. Menawat as President and CEO on the same date. Mr. Mangat did not receive any compensation for his role as a director of the Corporation.

### **Incentive Plan Awards Value Vested or Earned in 2016**

The following table provides information regarding the value on vesting of incentive plan awards for the financial year ended December 31, 2016.

All values shown in the table below are stated in Canadian dollars unless otherwise noted.

| Name                                                                       | Option based awards - Value vested during the year <sup>(1)(2)</sup><br>(\$) | Share based awards - Value vested during the year<br>(\$) | Non-equity incentive plan compensation - Value earned during the year<br><br>USD (\$) |
|----------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------------------|
| Mr. Rick Mangat<br>President and Chief Executive Officer                   | Nil                                                                          | Nil                                                       | 286,290                                                                               |
| Dr. Arun Menawat<br>Former Chairman, President and Chief Executive Officer | Nil                                                                          | Nil                                                       | 249,560                                                                               |
| Mr. Roger Deck<br>Chief Financial Officer                                  | Nil                                                                          | Nil                                                       | 161,568                                                                               |

|                                                                                       |     |     |         |
|---------------------------------------------------------------------------------------|-----|-----|---------|
| Mr. Thomas Tamberrino<br>Vice President, Sales and Marketing                          | Nil | Nil | 219,999 |
| Mr. Derrick Guo<br>General Counsel and Corporate Secretary                            | Nil | Nil | 125,924 |
| Ms. Lori Swalm<br>Sr. Vice President,<br>Regulatory, Clinical and<br>Economic Affairs | Nil | Nil | 110,250 |

- (1) Options which vested in 2016 were "in-the-money" at year-end. The amount is based on the difference between the market price of the underlying security on the date it vested during 2016 and the exercise price of the option times the number of options that vested.
- (2) The amount is based on the difference between the market price of the underlying security on the day it vested during 2016 and the exercise price of the option times the number of options that vested.

## TERMINATION AND CHANGE OF CONTROL BENEFITS

Each of the Corporation's NEOs, as of December 31, 2016, is a party to an employment agreement with the Corporation that sets forth certain instances where payments and other obligations arise on the termination of their employment (whether voluntary, involuntary, or constructive), and upon a change of control. The obligations under each contract and other significant factors are summarized below:

*Mr. 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 CA\$120,000 which is subject to annual review and adjustment. On January 1, 2017, Mr. Mangat's annual salary was increased to US\$565,000. The agreement contains non-solicitation and non-competition covenants in favour of the Corporation which apply during the term of Mr. Mangat's employment and for a period of two (2) years following the termination of his employment, and confidentiality covenants in favour of the Corporation 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 six (6) months following his termination pursuant to the employment agreement. In 2015, Mr. Mangat entered into a change of control agreement with the Corporation. The change of control agreement provides that, upon the occurrence of a 'double trigger' of (1) a change of control of the Corporation, and (2) an involuntary termination of Mr. Mangat's employment within two (2) years of such change of control, the Corporation shall provide Mr. Mangat with the following compensation and benefits: (a) lump sum payment equal to two (2) years base salary; (b) a lump sum amount equivalent to two (2) times average cash bonus received in previous three (3) calendar years; (c) a pro-rata share of the target bonus for the calendar year in which the involuntary termination occurred; (d) maintenance of the medical, disability and life insurance coverages in effect at the date of termination for two (2) years or until employment with another company; and (e) notwithstanding the terms of the Option Plan or LTIP and subject to regulatory approval (if any), the vesting of all (i) outstanding options held under the Option Plan the right to exercise such options within ninety (90) days from the date of termination, and (ii) outstanding RSUs held under the LTIP.

*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 CA\$110,000 which is subject to annual review and adjustment. As at January 1, 2017, Mr. Deck's annual salary was US\$350,000. The agreement contains non-solicitation and non-competition covenants in favour of the Corporation which apply during the term of Mr. Deck's employment and for a period of two (2) years following the termination of his employment, and confidentiality covenants in favour of the Corporation 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 for six (6) months following his termination pursuant to the employment agreement. In 2015, Mr. Deck entered into a change of control agreement with the Corporation. The change of control agreement provides that, upon the occurrence of a 'double trigger' of (1) a change of control of the Corporation, and (2) an involuntary termination of Mr. Deck's employment within two (2) years of such change of control, the Corporation shall provide Mr. Deck with the following compensation and benefits: (a) lump sum payment equal to two (2) years base salary; (b) a lump sum amount equivalent to two (2) times average cash bonus received in previous three (3) calendar years; (c) a pro-rata share of the target bonus for the calendar year in which the involuntary termination occurred; (d) maintenance of the medical, disability and life insurance coverages in effect at the date of termination for two (2) years or until employment with another company; and (e) notwithstanding the terms of the Option Plan or LTIP and subject to regulatory approval (if any), the vesting of all (i) outstanding options held under the Option Plan the right to exercise such options within ninety (90) days from the date of termination, and (ii) outstanding RSUs held under the LTIP.

*Thomas Tamberrino.* The employment agreement with Mr. Tamberrino is for an indefinite term, subject to the termination provisions within the agreement. The agreement provides for a base salary of US \$175,000 which is subject to annual review and adjustment. As at January 1, 2017, Mr. Tamberrino's annual salary was US\$270,000. The agreement contains non-solicitation and non-competition covenants in favour of the Corporation which apply during the term of Mr. Tamberrino's employment and for a period of one (1) year following the termination of his employment, and confidentiality covenants in favour of the Corporation which apply indefinitely. In 2015, Mr. Tamberrino entered into a change of control agreement with the Corporation. In 2016, the Compensation Committee increased Mr. Tamberrino's change of control benefits to provide that, upon the occurrence of a 'double trigger' of (1) a change of control of the Corporation, and (2) an involuntary termination of Mr. Tamberrino's employment within two (2) years of such change of control, the Corporation shall provide Mr. Tamberrino with the following compensation and benefits: (a) lump sum payment equal to two (2) years base salary; (b) a lump sum amount equivalent to two (2) times average cash bonus received in previous three (3) calendar years; (c) a pro-rata share of the target bonus for the calendar year in which the involuntary termination occurred; (d) maintenance of the medical, disability and life insurance coverages in effect at the date of termination for two (2) years or until employment with another company; and (e) notwithstanding the terms of the Option Plan or LTIP and subject to regulatory approval (if any), the vesting of all (i) outstanding options held under the Option Plan the right to exercise such options within ninety (90) days from the date of termination, and (ii) outstanding RSUs held under the LTIP.

*Derrick Guo.* The employment agreement with Mr. Guo is for an indefinite term, subject to the termination provisions within the agreement. The agreement provides for a base salary of CA\$160,000 which is subject to annual review and adjustment. As at January 1, 2017, Mr. Guo's annual salary was US\$250,000. The agreement contains non-solicitation and non-competition covenants in favour of the Corporation which apply during the term of Mr. Guo's employment and for a period of one (1) year following the termination of his employment, and confidentiality covenants in favour of the Corporation which apply indefinitely. In addition, if Mr. Guo is terminated for any reason other than for cause, Mr. Guo will receive his base salary and benefits for three (3) months, subject to certain adjustments, following his termination. In 2016, the Compensation Committee increased Mr. Guo's change of control benefits to provide that, upon the occurrence of a 'double trigger' of (1) a change of control of the Corporation, and (2) an involuntary termination of Mr. Guo's employment within two (2) years of such change of control, the Corporation shall provide Mr. Guo with the following compensation and benefits: (a) lump sum payment equal to two (2) years base salary; (b) a lump sum amount equivalent to one and two (2) times average cash bonus received in previous three (3) calendar years; (c) a pro-rata share of the target bonus for the calendar year in which the involuntary termination occurred; (d) maintenance of the medical, disability and life insurance coverages in effect at the date of termination for two (2) years or until employment with another company; and (e) notwithstanding the terms of the Option Plan or LTIP and subject to regulatory approval (if any), the vesting of all (i) outstanding options held under the Option Plan the right to exercise such options within ninety (90) days from the date of termination, and (ii) outstanding RSUs held under the LTIP.

*Lori Swalm.* The employment agreement with Ms. Swalm is for an indefinite term, subject to the termination provisions within the agreement. The agreement provides for a base salary of US\$112,500 which is subject to annual review and adjustment. As at January 1, 2017, Ms. Swalm annual salary was US\$240,000. The agreement contains non-solicitation and non-competition covenants in favour of the Corporation which apply during the term of Ms. Swalm's employment and for a period of two (2) years following the termination of her employment, and confidentiality covenants in favour of the Corporation which apply indefinitely. In addition, if Ms. Swalm is terminated for any reason other than for cause, Ms. Swalm will receive her base salary and benefits for six (6) months following her termination. In 2015, Ms. Swalm entered into a change of control agreement. In 2016, the Compensation Committee increased Ms. Swalm's change of control benefits to provide that, upon the occurrence of a 'double trigger' of (1) a change of control of the Corporation, and (2) an involuntary termination of Ms. Swalm's employment within two (2) years of such change of control, the Corporation shall provide Ms. Swalm with the following compensation and benefits: (a) lump sum payment equal to two (2) years base salary; (b) a lump sum amount equivalent to two (2) times average cash bonus received in previous three (3) calendar years; (c) a pro-rata share of the target bonus for the calendar year in which the involuntary termination occurred; (d) maintenance of the medical, disability and life insurance coverages in effect at the date of termination for two (2) years or until employment with another company; and (e) notwithstanding the terms of the Option Plan or LTIP and subject to regulatory approval (if any), the vesting of all (i) outstanding options held under the Option Plan the right to exercise such options within ninety (90) days from the date of termination, and (ii) outstanding RSUs held under the LTIP.

### **Payments on Termination or Change of Control**

The following table provides details regarding the estimated incremental payments, payables and benefits from the Corporation to each of the NEOs assuming a change of control occurred on December 31, 2016.

All values shown in the table below are stated in U.S. dollars.

| Name                                                                                  | Change of<br>Control<br>Payment<br>(Base Salary) | Change of<br>Control<br>Payment<br>(Bonus) | Change of<br>Control<br>Payment<br>(Value of<br>Benefits) | Total               |
|---------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------|-----------------------------------------------------------|---------------------|
|                                                                                       | (\$) <sup>(1)</sup>                              | (\$) <sup>(1)</sup>                        | (\$) <sup>(1)</sup>                                       | (\$) <sup>(1)</sup> |
| Mr. Rick Mangat<br>President and Chief<br>Executive Officer                           | \$960,500                                        | \$519,142                                  | \$854,405                                                 | \$2,334,047         |
| Mr. Roger Deck<br>Chief Financial Officer                                             | \$598,400                                        | \$343,890                                  | \$487,108                                                 | \$1,429,398         |
| Mr. Thomas Tamberrino<br>Vice-President of Sales and<br>Marketing                     | \$400,000                                        | \$450,854                                  | \$292,125                                                 | \$1,142,979         |
| Mr. Derrick Guo<br>General Counsel                                                    | \$399,760                                        | \$242,065                                  | \$117,750                                                 | \$759,575           |
| Ms. Lori Swalm<br>Sr. Vice President,<br>Regulatory, Clinical and<br>Economic Affairs | \$450,000                                        | \$248,615                                  | \$235,608                                                 | \$934,223           |

(1) Amounts are shown in U.S. dollars, the Corporation's reporting currency. Canadian dollars have been translated at the exchange rate on December 31, 2016 of \$1.3427 Canadian dollars per US\$1.00

### **DIRECTOR COMPENSATION**

The directors of the Corporation, other than the current and former President and CEO, were paid in respect of the financial year-ended December 31, 2016, an annual fee of US\$58,000 for their services.

Directors of the Corporation are also eligible to receive stock option grants as an initial grant when joining the Board. During the financial year 2016, each of Mr. Anthony Griffiths, Mr. Harold Koch, Jr., Mr. William Mackinnon, Mr. Thomas Wellner, Mr. Robert White and Ms.

Merrin were granted 12,560 DSUs. Except as set out below, directors are not eligible to receive other compensation.

### **Director Compensation Table**

The following table provides information regarding compensation paid to the Corporation's non-executive directors during the financial year ended December 31, 2016. All values shown in the table below are stated in U.S. dollars.

| <b>Name</b>                            | <b>Fees Earned</b>        | <b>Option-based Awards</b> | <b>Share-based Awards</b> | <b>All Other Compensation</b> | <b>Total</b> |
|----------------------------------------|---------------------------|----------------------------|---------------------------|-------------------------------|--------------|
|                                        | <b>(\$)<sup>(1)</sup></b> | <b>(\$)<sup>(2)</sup></b>  | <b>(\$)</b>               | <b>(\$)</b>                   | <b>(\$)</b>  |
| Mr. Anthony Griffiths                  | 58,000                    | Nil                        | 122,778                   | Nil                           | 180,778      |
| Mr. Harold O. Koch, Jr. <sup>(3)</sup> | 43,500                    | Nil                        | 122,778                   | Nil                           | 166,278      |
| Ms. Karen A. Licitra <sup>(3)</sup>    | 14,500                    | Nil                        | Nil                       | Nil                           | 14,500       |
| Mr. William Mackinnon                  | 58,000                    | Nil                        | 122,778                   | Nil                           | 180,778      |
| Ms. Patrice Merrin                     | 58,000                    | Nil                        | 122,778                   | Nil                           | 180,778      |
| Mr. Thomas Wellner                     | 58,000                    | Nil                        | 122,778                   | Nil                           | 180,778      |
| Mr. Robert White                       | 58,000                    | Nil                        | 122,778                   | Nil                           | 180,778      |

(1) The services provided by the directors include attendance during Board and Committee meetings, and the provision of governance and oversight. The level of compensation is determined by benchmarking peer companies of comparable size and complexity within the Corporation's industry.

(2) The amounts in this column represent the grant date fair value of options granted during 2016 and may not represent the amounts the directors will actually realize from the awards. The grant date fair value of the options granted during 2016 has been estimated at the date of grant in accordance with the International Financial Reporting Standard 2 using a Black-Scholes option pricing model.

(3) Ms. Licitra was appointed as a director of the Corporation on October 1, 2016; Mr. Koch resigned as a director of the Corporation on the same date.

(4) Ms. Collieran was appointed as a director of the Corporation on January 4, 2017.

### **Incentive Plan Awards**

The following table provides information regarding the incentive plan awards for each director outstanding as of December 31, 2016.

All values shown the table below are stated in Canadian dollars unless otherwise stated.

| Name                    | Number of securities underlying unexercised options | Option exercise price | Option expiration date | Value of unexercised in-the-money options | Number of DSUs granted | Long-Term Incentive Plan Awards |
|-------------------------|-----------------------------------------------------|-----------------------|------------------------|-------------------------------------------|------------------------|---------------------------------|
|                         | (#)                                                 | (\$)                  |                        | (\$)                                      |                        | (US \$)                         |
| Mr. Anthony Griffiths   | 3,400                                               | 6.50                  | 17-Aug-17              | 10,166                                    | 12,560                 | 122,778                         |
|                         | 5,100                                               | 4.01                  | 15-May-18              | 27,948                                    |                        |                                 |
|                         | 5,500                                               | 3.09                  | 21-May-19              | 35,200                                    |                        |                                 |
|                         | 7,500                                               | 4.26                  | 20-May-20              | 39,225                                    |                        |                                 |
|                         | 7,500                                               | 4.15                  | 20-May-21              | 40,050                                    |                        |                                 |
|                         | 8,500                                               | 6.47                  | 23-May-22              | 25,670                                    |                        |                                 |
|                         | 8,500                                               | 14.65                 | 22-May-23              | -                                         |                        |                                 |
|                         | 8,500                                               | 17.44                 | 21-May-24              | -                                         |                        |                                 |
|                         | 8,500                                               | 12.93                 | 13-May-25              | -                                         |                        |                                 |
| Mr. Harold O. Koch, Jr. | 7,500                                               | 7.74                  | 24-May-17              | 13,125                                    | 12,560                 | 122,778                         |
|                         | 3,400                                               | 6.50                  | 17-Aug-17              | 10,166                                    |                        |                                 |
|                         | 5,100                                               | 4.01                  | 15-May-18              | 27,948                                    |                        |                                 |
|                         | 5,500                                               | 3.09                  | 21-May-19              | 35,200                                    |                        |                                 |
|                         | 7,500                                               | 4.26                  | 20-May-20              | 39,225                                    |                        |                                 |
|                         | 7,500                                               | 4.15                  | 20-May-21              | 40,050                                    |                        |                                 |
|                         | 8,500                                               | 6.47                  | 23-May-22              | 25,670                                    |                        |                                 |
|                         | 8,500                                               | 14.65                 | 22-May-23              | -                                         |                        |                                 |
|                         | 5,667                                               | 17.44                 | 21-May-24              | -                                         |                        |                                 |
|                         | 2,833                                               | 12.93                 | 13-May-25              | -                                         |                        |                                 |
| Ms. Karen Licitra       | Nil                                                 | Nil                   | N/A                    | -                                         | Nil                    | Nil                             |
| Mr. William Mackinnon   | 7,500                                               | 4.15                  | 20-May-21              | 40,050                                    | 12,560                 | 122,778                         |
|                         | 8,500                                               | 6.47                  | 23-May-22              | 25,670                                    |                        |                                 |
|                         | 8,500                                               | 14.65                 | 22-May-23              | -                                         |                        |                                 |
|                         | 8,500                                               | 17.44                 | 21-May-24              | -                                         |                        |                                 |
|                         | 8,500                                               | 12.93                 | 13-May-25              | -                                         |                        |                                 |
| Ms. Patrice Merrin      | 15,000                                              | 12.93                 | 13-May-25              | -                                         | 12,560                 | 122,778                         |
| Mr. Thomas Wellner      | 15,000                                              | 17.44                 | 21-May-24              | -                                         | 12,560                 | 122,778                         |
|                         | 8,500                                               | 12.93                 | 13-May-25              | -                                         |                        |                                 |
| Mr. Robert White        | 15,000                                              | 16.35                 | 5-Nov-24               | -                                         | 12,560                 | 122,778                         |
|                         | 8,500                                               | 12.93                 | 13-May-25              | -                                         |                        |                                 |

- (1) Options which vested in 2016 were "in-the-money" at year-end. The amount is based on the difference between the market price of the underlying security on the date it vested during 2016 and the exercise price of the option times the number of options that vested.
- (2) The amount is based on the difference between the market price of the underlying security on the day it vested during 2016 and the exercise price of the option times the number of options that vested.

### **Incentive Plan Awards Vested or Earned in 2016**

The following table provides information regarding the value on vesting of incentive plan awards for the financial year ended December 31, 2016.

All values shown in the table below are stated in Canadian dollars.

| <b>Name</b>             | <b>Option-based awards <sup>(1) (2)</sup></b><br><b>(\$)</b> | <b>Long-Term Incentive Plan Awards</b><br><b>(\$)</b> |
|-------------------------|--------------------------------------------------------------|-------------------------------------------------------|
| Mr. Anthony Griffiths   | Nil                                                          | Nil                                                   |
| Mr. Harold O. Koch, Jr. | Nil                                                          | 145,722 <sup>(4)</sup>                                |
| Ms. Karen A. Licitra    | Nil                                                          | Nil                                                   |
| Mr. William Mackinnon   | Nil                                                          | Nil                                                   |
| Ms. Patrice Merrin      | Nil                                                          | Nil                                                   |
| Mr. Thomas Wellner      | Nil                                                          | Nil                                                   |
| Mr. Robert White        | Nil                                                          | Nil                                                   |

(1) Options which vested in 2016 were "in-the-money" at year-end. The amount is based on the difference between the market price of the underlying security on the date it vested during 2016 and the exercise price of the option times the number of options that vested.

(2) The amount is based on the difference between the market price of the underlying security on the day it vested during 2016 and the exercise price of the option times the number of options that vested.

(3) Ms. Colleran was appointed as a director of the Corporation on January 4, 2017.

(4) Mr. Koch resigned from his position as director on October 1, 2016 and the Board waived the vesting requirements of all DSUs held by Mr. Koch on his resignation date.

## **EQUITY COMPENSATION PLANS**

### **Description of the Corporation's Option Plan**

At the Meeting, Shareholders will be asked to consider, and approve a resolution reconfirming and approving the granting of unallocated options under the Corporation's Option Plan. Information respecting the Corporation's Option may be found under Item 4 of this Circular on page 6.

### **Description of the Corporation's Long-Term Incentive Plan**

At the Meeting, Shareholders will be asked to consider, and approve a resolution reconfirming and approving the granting of unallocated Units under the LTIP. Information respecting the Corporation's LTIP may be found under Item 5 of this Circular on page 9.

### **Shares Authorized for Issuance under Share Based Compensation Plans**

The following table shows information, as of December 31, 2016, on equity compensation plans under which shares or options are authorized for issuance.

All values stated in the table below are in Canadian dollars.

| <b>Plan Category <sup>(1)</sup></b>           | <b>Number of shares issuable upon exercise of outstanding options or settlement of Units</b> | <b>Weighted-average exercise price of outstanding options (\$)</b> | <b>Number of shares available for future issuance under equity compensation plans (excluding shares reflected in column (a))</b> |
|-----------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
|                                               | <b>(a)</b>                                                                                   | <b>(b)</b>                                                         | <b>(c)</b>                                                                                                                       |
| Plans approved by Shareholders: Option Plan   | 4,608,064                                                                                    | 12.06                                                              |                                                                                                                                  |
| Plans approved by Shareholders: LTIP          | 308,255                                                                                      | N/A                                                                |                                                                                                                                  |
| Plans not previously approved by Shareholders | N/A                                                                                          | N/A                                                                | N/A                                                                                                                              |
| <b>Total</b>                                  | <b>4,916,319</b>                                                                             | <b>12.06</b>                                                       | <b>1,136,451</b>                                                                                                                 |

(1) The maximum number of common shares which may be reserved for issuance under the LTIP and the Option Plan cannot not exceed 10% of the issued and outstanding common shares from time to time on a non-diluted basis.

### **Description of the Corporation's Employee Share Purchase Plan**

Effective as of July 1, 2008, the Board approved an Employee Share Purchase Plan ("ESPP") for the purpose of encouraging and facilitating common share ownership by employees, to further align the interests of employees with the success of the Corporation, and to attract and retain employees. All full-time employees who have worked at least three consecutive complete months for the Corporation are eligible to be participants ("ESPP Participants"). Under the ESPP, a plan administrator was appointed to receive Participant contributions up to 10% of the ESPP Participants' annual base salary, the Corporation matching contributions equal to 15% of ESPP Participant contributions, and to use total contributions to purchase common shares on behalf of ESPP Participants through the facilities of the primary

exchange on which the common shares are listed for trading, being currently the TSX and the NASDAQ. Common shares purchased under the ESPP are subject to a transfer restriction for six months after the date of purchase. Purchase expenses are paid by the Corporation, and sale expenses are paid by the ESPP Participant. The Corporation may amend, suspend, or terminate the ESPP at any time.

#### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

As at April 17, 2017, no individual who is, or at any time during the most recently completed financial year was, a director or executive officer of the Corporation, and no proposed nominee for election as a director for the Corporation, and no associate of any such director, executive officer or proposed nominee is, or at any time since the beginning of the most recently completed financial year of the Corporation has been, indebted to the Corporation or any of its subsidiaries.

#### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS OR MATTERS TO BE ACTED UPON**

Except as disclosed elsewhere in this Circular, no director or officer of the Corporation, or any associate or affiliate thereof or, to the knowledge of the Corporation, any holder holding 10% or more of the voting shares of the Corporation or any associate or affiliate thereof, has had any material interest, direct or indirect, by way of beneficial ownership of shares or otherwise, in any matter to be acted upon or in any transaction of the Corporation since January 1, 2016, or in any proposed transaction that has materially affected or will materially affect the Corporation or any of its affiliates.

#### **RECEIPT OF SHAREHOLDER PROPOSALS FOR NEXT ANNUAL MEETING**

Shareholders entitled to vote at the next annual meeting of Shareholders and who wish to submit a proposal in respect of any matter to be raised at such meeting must ensure that the Corporation receives such proposal no later than December 4, 2017.

#### **ADDITIONAL INFORMATION**

The Corporation will provide to any person or company, upon receipt of a request by the Corporate Secretary of the Corporation and, in the case of a security holder, without charge, a copy of: (i) the Corporation's most recent Annual Information Form, together with a copy of any document, or the pertinent pages of any document incorporated therein by reference; (ii) the financial statements for the Corporation's financial year ended December 31, 2016, together with the accompanying report of the auditor, and any interim financial statements of the Corporation that have been filed for any period subsequent to December 31, 2016 and Management's discussion and analysis thereof; and (iii) this Circular. Additional information relating to the Corporation may be accessed on SEDAR at [www.sedar.com](http://www.sedar.com) and the website of the U.S. Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov). Financial information is provided in the Corporation's comparative financial statements and MD&A.

## DIRECTORS' APPROVAL

The undersigned Chairman of the Board certifies that the contents and sending of this Circular have been approved by the Board of the Corporation.



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William Mackinnon  
Chairman of the Board  
April 17, 2017

## **Appendix "A"**

### **STATEMENT ON CORPORATE GOVERNANCE PRACTICES**

#### **General**

On June 30, 2005, the Canadian Securities Administrators ("CSA") implemented National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("NI 58-101") and National Policy 58-201 – *Corporate Governance Guidelines* ("NP 58-201"). NI 58-101 and NP 58-201 have replaced the corporate governance guidelines of the TSX and provide for mandated disclosure under NI 58-101 of a corporation's corporate governance practices, as well as best practices under NP 58-201.

The Board and Management recognize the importance of corporate governance to the effective Management of the Corporation and to its Shareholders. The Corporation's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Corporation are effectively managed so as to enhance Shareholder value. The Board and the Corporation have devoted significant attention and resources to ensuring that the Corporation's system of corporate governance meets or exceeds applicable legal and stock exchange requirements in both Canada and the United States.

This statement of corporate governance practices has been prepared by the Corporate Governance Committee (the "**Governance Committee**").

The following sets out the Corporation's approach to corporate governance in accordance with NI 58-101F1.

#### **Board of Directors**

##### *Independence*

The Board is currently comprised of eight (8) directors. The Board is responsible for determining whether or not each director is "independent" (as defined below) and has determined that a majority of the current Board (namely Mr. Anthony Griffiths, Mr. William Mackinnon, Ms. Patrice Merrin, Mr. Robert White, Ms. Karen Licitra, Ms. Lisa Colleran and Mr. Thomas Wellner) is independent. Pursuant to National Instrument 58-101 – *Disclosure of Corporate Governance Practices* and National Instrument 52-110 – *Audit Committees*, a director is independent if such director has no direct or indirect material relationship with the Corporation, which could, in the view of the Corporation's Board, be reasonably expected to interfere with the exercise of a member's independent judgment.

Mr. Rick Mangat is not independent under these standards as he is also the President and CEO of the Corporation. Mr. Rick Mangat is the only non-independent director on the Board.

### *Common Board Memberships*

Non-executive directors can serve on no more than four other public company boards. Executive directors can serve on no more than two other public company boards. Directors must advise the chair of the Board and the chair of the Governance Committee in advance of accepting an invitation to serve on another public company board. Otherwise, directors are required to disclose to the Board or any applicable committee thereof any real or perceived conflict in relation to any matter or proposed matter to be considered and in such circumstances, it is the Board's policy that such directors excuse themselves from all deliberations of such matters.

There are five (5) current directors who are members of a board of directors of another public company. Mr. Griffiths is a director of Fairfax Financial Holdings Limited and Fairfax India Holdings Corporation. Mr. Mackinnon is a director of Telus Corp. and Pioneer Petroleum. Mr. Wellner serves on the boards of Cipher Pharmaceuticals. Ms. Merrin is a director of Glencore PLC, Stillwater Mining Corporation and Kew Media Group Inc. Mr. White is a director of AtriCure Inc. and Entellus Medical Inc.

### **Meetings of Independent Directors**

The entire complement of independent directors on the Board and each of the committees meet regularly without Management present. Prior to William Mackinnon's election as the Chairman of the Board on July 6, 2016, the former Lead Director of the Board conducted these sessions at Board meetings. Subsequent to July 6, 2016, the Chairman of the Board conducts these sessions at Board meetings. The chair of each committee conducts them at committee meetings. During the last financial year ended December 31, 2016, there have been fourteen (14) such meetings of the independent directors.

### **Chairman of the Board**

William Mackinnon was elected as the Chairman of the Corporation on July 6, 2016 succeeding Dr. Arun Menawat. The primary functions of the Chairman are to facilitate the operations and deliberations of the Board and the satisfaction of the Board's responsibilities under its mandate. The Chairman's key responsibilities include duties relating to setting Board meeting agendas, chairing board and Shareholder meetings, director development, providing input on potential director candidates, and communicating with Shareholders and regulators. The responsibilities of the Chairman are reviewed by the Governance Committee and considered by the Board for approval each year.

### **Attendance**

During the financial year ended December 31, 2016, the Board met a total of eighteen (18) times, the Audit Committee met a total of five (5) times, the Compensation Committee met a total of three (3) times, and the Governance Committee met a total of one (1) time. The attendance record of each director is set out below:

| Summary of Board and Committee Meetings Held<br>For the 12-month period ended December 31, 2016 |    | Summary of Attendance of Directors<br>For the 12-month period ended December 31, 2016 |                |                    |
|-------------------------------------------------------------------------------------------------|----|---------------------------------------------------------------------------------------|----------------|--------------------|
| Board                                                                                           | 18 | Director                                                                              | Board Meetings | Committee Meetings |
| Audit Committee                                                                                 | 5  | Arun Menawat <sup>(1)</sup>                                                           | 6 of 13        | N/A                |
| Compensation Committee                                                                          | 3  | Anthony Griffiths <sup>(2)(3)</sup>                                                   | 17 of 18       | 8 of 8             |
| Governance Committee                                                                            | 1  | Harold O. Koch, Jr. <sup>(3)(6)</sup>                                                 | 15 of 15       | 1 of 1             |
|                                                                                                 |    | Karen A. Licitra <sup>(2)(5)</sup>                                                    | 3 of 3         | 2 of 2             |
|                                                                                                 |    | William Mackinnon <sup>(4)</sup>                                                      | 18 of 18       | 8 of 8             |
|                                                                                                 |    | Patrice Merrin <sup>(3)(4)</sup>                                                      | 16 of 18       | 5 of 5             |
|                                                                                                 |    | Thomas Wellner <sup>(3)(4)</sup>                                                      | 17 of 18       | 5 of 5             |
|                                                                                                 |    | Robert White <sup>(2)</sup>                                                           | 13 of 18       | 3 of 3             |

(1) Dr. Menawat ceased being a director as of July 6, 2016.

(2) Compensation Committee

(3) Governance Committee

(4) Audit Committee

(5) Ms. Licitra joined the Board on October 1, 2016.

(6) Mr. Koch ceased being a director as of October 1, 2016.

(7) Ms. Collieran joined the Board on January 4, 2017.

## Board Mandate

The Board is responsible for supervising the management of the Corporation's business and affairs. Any responsibility that is not specifically delegated to a Board committee or to Management remains with the full Board.

The Board, through the Governance Committee, reviews and adopts a strategic process on an annual basis that takes into consideration the opportunities and risks of the business. The Board oversees the implementation of the strategic process by Management. Members of Management also frequently make presentations to the Board and/or the Governance Committee regarding updates on and discussions of the strategic process and implementation actions.

The Board oversees the identification and management of the Corporation's principal risks. The Governance Committee has been delegated the responsibility of identifying the principal risks of the business and ensuring the implementation of appropriate risk management systems, which are approved by the Board upon the recommendations of the Governance Committee. In addition, the Audit Committee, through its regular meetings with the external counsel and their review of the findings and activities of the external auditors, are aware of the significant risks or exposures to the Corporation's business and has been given the responsibility of reviewing the programs of risk assessment and the steps taken by the

Corporation to address significant risks or exposures of all types, including insurance coverage and tax compliance, and reporting to the Board on a regular basis.

The Board, through the Governance Committee, oversees succession planning, including the development and monitoring of Management and the Board. The Governance Committee is responsible, to the extent possible, to satisfy itself of the integrity of the President and CEO and other executive officers of the Corporation and that such individuals create a culture of integrity throughout the Corporation.

The Board, through its Governance Committee, has discussed and considered how the Corporation communicates with its Shareholders, other stakeholders and the public. As of September 13, 2016, the Board has approved an updated disclosure policy respecting confidentiality, disclosure, shareholder communications, dissemination procedures and insider trading to establish, among other things, consistent guidelines for determining when information is material, how it is disclosed and, to avoid making selective disclosure, making all material disclosures on a widely-disseminated basis. The Governance Committee has been delegated the responsibility of overseeing the effectiveness and compliance with such policy and to report to the Board on a regular basis. The Corporation seeks to communicate with its Shareholders through a variety of channels, including quarterly reports, annual reports, annual information forms, news releases and conference calls.

The Board, through the Audit Committee and with the assistance of the Governance Committee, reviews with Management and the Corporation's auditors the adequacy of the Corporation's internal controls and management information systems on a regular basis. The Board has established a prescribed checklist for itself, the Audit Committee, the Governance Committee and the Compensation Committee. These governance checklists outline key responsibilities and tasks and their scheduled performance and completion for each quarter and year-end.

### **Position Descriptions**

The Board has not developed written position descriptions for the Chair of each committee of the Board. The Board believes that the charters of the Audit Committee and the Governance Committee adequately delineate the roles of the Chairs of such committees. Each of the Audit Committee and the Governance Committee are responsible for reviewing their respective charters on a regular basis and to recommend to the Board any changes as considered appropriate from time to time.

The Corporation has developed written position descriptions for the CEO and other positions in senior management. The Governance Committee has been delegated the responsibility of defining and updating, on a regular basis, with the President and CEO, the position descriptions of each position in senior management.

## Orientation and Continuing Education

An orientation and education program is available for new members of the Board, which includes an introductory overview of the Corporation, including all relevant corporate information, committee mandates, policies affecting directors, the role, duties and expectations of directors and other background information. The Governance Committee is responsible for carrying out the orientation and continuing education functions.

To foster the Board's familiarity with corporate matters on an on-going basis, the Board from time to time, invites senior operating management to attend Board meetings to report on their respective business unit activities. Also, such senior operating management provide written reports to the Board.

## Share Ownership Guidelines

In order to ensure the interests of Management and directors are aligned with the interests of the Shareholders, the Board approved the adoption of share ownership guidelines in December of 2015. Current directors and named executive officers have three (3) years from December 2015 to meet the share ownership requirements. New executives are expected to meet the requirements within three (3) years following the commencement of their employment as an executive with the Corporation.

The guidelines for covered persons, expressed as a multiple of their current annual base salary or retainer (as applicable), are as follows:

| POSITION                       | MINIMUM OWNERSHIP |
|--------------------------------|-------------------|
| Directors                      | 3 x Retainer      |
| Chief Executive Officer        | 4 x Base Salary   |
| Other Named Executive Officers | 1 x Base Salary   |

## Ethical Business Conduct

The Board has adopted a Code of Business Ethics and Conduct (the "Code") that applies to all directors, officers and employees of the Corporation and its subsidiaries. The Code provides a framework of guidelines and principles to encourage ethical and professional behavior in conducting the business of the Corporation. The Code is reviewed and monitored on a regular basis by the Audit Committee.

The Disclosure and Compliance Committee, comprised of the Chief Executive Officer, General Counsel and a senior vice president, monitors and reviews day-to-day compliance with the Code. The Disclosure and Compliance Committee meets quarterly in advance of each

quarterly Audit Committee meeting to review and report compliance and bring forward any issues under the Code that have arisen in the preceding financial quarter.

At each regularly scheduled quarterly meeting of the Audit Committee, the Chair of the Audit Committee also makes a point to inquire of each person in attendance, including the Chief Executive Officer, General Counsel and the auditors if there are any known issues related to compliance with the Corporation's Code. Any issues are then reported to the Board and the Governance Committee.

It is the Corporation's policy to seek to ensure that its best interests are paramount in all of its dealings with customers, suppliers, consultants, competitors, existing and potential business partners and other representatives, and are conducted in a manner that avoids actual or potential conflicts of interest.

The text of the Code is available at [www.sedar.com](http://www.sedar.com) and the Corporation's website at [www.novadaq.com](http://www.novadaq.com) or can be obtained by request from the Corporation.

### **Nomination of Directors**

The Governance Committee is responsible for establishing qualifications for directors and procedures for identifying possible nominees who meet these criteria. In doing so, the Governance Committee is to consider the desired competencies and skills and the appropriate size of the Board. When vacancies arise on the Board, the Governance Committee recommends to the Board potential nominees, having regard to the needs of the Board.

### **Assessments of the Board**

The Governance Committee is responsible for assessing the effectiveness of the Board as a whole and its committees. The Governance Committee evaluates the performance and contribution of individual members of the Board in their capacity as directors and as members of any Board Committee and recommends timely changes in the role, size, composition and structure of the Board and the Board committees.

During each of the quarterly meetings held each year by the Board and its committees, that is, the Audit Committee, Compensation Committee and the Governance Committee, there are in-camera sessions where there is opportunity to discuss the performance of individual directors and Management. The Chairman of the Board has in-person meetings at least monthly and otherwise holds meetings on a periodic basis with the Chief Executive Officer to discuss the operation of the Corporation.

### **Board Diversity Policy**

On September 13, 2016, the Board adopted an updated Board of Directors Diversity Policy (the "**Diversity Policy**"). The Corporation recognizes the need to foster and promote diversity among Board members and executive officers and embraces the benefits of diversity in its workforce. The Board is committed to continued growth and development of diversity

among its Board members and executive officers to ensure that its members are reflective of diverse professional experiences, skills, knowledge and other attributes that are essential to its successful operation and the achievement of the Corporation's current and future plans and objectives.

Pursuant to the Diversity Policy, the Corporate Governance Committee shall have due regard for the need to identify and promote individuals who are reflective of diversity for nomination to the Board or appointment as executive officers. In particular, the Corporate Governance Committee will consider the level of representation of women and other diverse candidates on the Board and in senior management/executive officer positions when making such recommendations.

The Diversity Policy provides that the Corporate Governance Committee will engage in periodic evaluation of individual Board members to identify strengths and areas for improvements, take measures to ensure that the nominee recruitment and identification process fosters progression of diverse candidates, and recommend to the Board appropriate targets and timelines in respect of representation of women on the Board.

Following the Meeting and assuming that all director nominees are elected, the Board will be comprised of three female directors (43%). There is currently one woman (20%) that holds an executive position with the Corporation. The Board recognizes the contribution of diverse members to the Board and is committed to ensuring that there is significant representation of women on the Board and at the executive level, as evidenced by the level of diversity among current members of the Board. Notwithstanding the foregoing, as of the date hereof, the Board has not adopted a target regarding the number of women on the Board or in executive positions.

### **Board Tenure Policy**

On September 13, 2016, the Board adopted an updated board tenure policy, which sets a maximum term limit for Board members of ten (10) years and a mandatory retirement age of 72, provided that the Governance Committee may recommend the Board to approve the extension of a Board member's term past the maximum limit or mandatory retirement age in exceptional circumstances. If such an extension is approved by the Board, it must be publicly disclosed in accordance with the terms of the board tenure policy.

### **Board Committees**

The Board has three committees. Each committee has a charter, which is reviewed by the Board and considered by the Board for approval every year.

#### **Audit Committee**

The Audit Committee is currently composed of Mr. William Mackinnon, Ms. Patrice Merrin and Mr. Thomas Wellner. The Board considers all current members of the Audit Committee to be "independent" and "financially literate" within the meaning of National

Instrument 52-110 – *Audit Committees*. The Audit Committee has a specifically defined mandate and charter which clearly defines its role and responsibilities. The Audit Committee is responsible for recommending to the Board the appointment and compensation of the Corporation's external auditor; overseeing the work of the external auditor, including the resolution of disagreements between the external auditor and Management; pre-approving all non-audit services (or delegating such pre-approval if and to the extent permitted by law) to be provided to the Corporation or its subsidiaries by the Corporation's external auditor, satisfying themselves that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from its financial statements, including periodically assessing the adequacy of such procedures, establishing procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by employees of the Corporation or its subsidiaries of concerns regarding questionable accounting or auditing matters, and reviewing and approving the annual and interim financial statements, related Management Discussion and Analysis and other financial information provided by the Corporation to any governmental body or the public

The Audit Committee is to be comprised of a minimum of three directors, as determined by the Board and elected by the Board on an annual basis or until their successors shall be duly appointed. Unless a Chair of the Audit Committee is elected by the full Board, the members of the Audit Committee may designate a chair by majority vote of the full Audit Committee membership. The Chair of the Audit Committee is currently Mr. William Mackinnon. Additional information regarding the Corporation's Audit Committee can be found in the Corporation's Annual Information Form for the year ended December 31, 2016 (the "AIF"). The AIF can be found on [www.sedar.com](http://www.sedar.com), or a copy of it can be obtained by contacting the Corporation's Corporate Secretary at 5090 Explorer Drive, Suite 202, Mississauga, Ontario, L4W 4T9, or by telephone at 905-629-3822.

### **Compensation Committee**

The Compensation Committee reviews and recommends for Board approval the remuneration of directors, including the annual retainer, Option Plan participation and other benefits conferred upon the directors.

The Compensation Committee also recommends the compensation of the Corporation's senior executives, including the President and CEO for approval by the Board. The objective of the Compensation Committee is to set compensation which is competitive for the markets in which the Corporation operates and which results in the creation of Shareholder value over the long-term (i.e. Management and Board incentives are aligned with gains in the common shares of the Corporation). The Compensation Committee seeks to ensure that base salaries are competitive relative to the industry and bonuses, if any, reflect individual performance in the context of the overall performance of the Corporation, as measured by issues such as profitability, stock price and initiatives undertaken in the year.

The Compensation Committee is currently composed entirely of independent members of the Board. Currently, the Chair of Compensation Committee is Mr. Anthony Griffiths.

## **Governance Committee**

The Governance Committee is responsible for reviewing, approving and if appropriate, recommending to the Board the compensation and objectives of the President and CEO and other members of Management; administering the Corporation's compensation plans for Management and the Board, including the Corporation's Option Plan, LTIP and other compensation plans or structures that may be adopted by the Corporation from time-to-time; assessing the effectiveness of the Board as a whole, and that of individual members; periodically assessing the Corporation's governance practices; proposing nominees to the Board; recommending resignation or removal of directors or officers where their current or past conduct is or has been improper or liable to adversely affect the Corporation or its reputation; and orienting new directors.

The Board determines the composition of the Committee, including its number of members. The members of the Governance Committee and its chair shall be elected by the Board on an annual basis, or until they are removed by the Board or their successors are duly appointed. Unless a Chair of the Governance Committee is elected by a full Board, the members of the Governance Committee may designate a chair by majority vote of the full Governance Committee membership. Currently, the Chair of the Governance Committee is Ms. Patrice Merrin.

During 2016, all members of the Audit Committee, the Compensation Committee and the Governance Committee met the Board's independence standards. If the proposed slate of directors is elected, all new committee members will be similarly independent.

**Appendix "B-1"**  
**OPTION PLAN RESOLUTION**

**BE IT RESOLVED, AS AN ORDINARY RESOLUTION, THAT:**

1. The proposed amendments to the company's Second Amended and Restated Stock Option Plan, which following such amendments, will be referred to as "Third Amended and Restated Stock Option Plan" (the "**Option Plan**"), as set out in further detail in the Corporation's Management Information Circular dated April 17, 2017, is hereby approved.
2. The unallocated stock options under the Option Plan are hereby reconfirmed and approved. For purposes of clarity, the maximum number of the Corporation's common shares reserved for issuance under the Option Plan shall be inclusive of any the common shares issuable pursuant to any other security based compensation arrangement of the Corporation, including outstanding restricted share units and deferred share units under the Corporation's long-term incentive plan, as amended.
3. The Corporation shall have the ability to continue granting unallocated options under the Option Plan until May 17, 2020, the date that is three (3) years from the date when shareholder approval is being sought.
4. Any officer of the Corporation be and is hereby authorized, for and on behalf of the Corporation, to execute or cause to be executed and to deliver or to cause to be delivered, all such other documents and instruments, and to do or cause to be done all other such acts and things, as in the opinion of such officer the Corporation may be necessary or desirable to carry out the intent of the foregoing resolutions, such necessity or desirability to be conclusively evidenced by the execution and delivery of any such documents or instruments or the taking of any such actions.

**Appendix “B-2”**  
**THIRD AMENDED AND RESTATED STOCK OPTION PLAN**  
(attached)

**NOVADAQ TECHNOLOGIES INC.**

**THIRD AMENDED AND RESTATED STOCK OPTION  
PLAN**

**Effective as of May 17, 2017**

## NOVADAQ TECHNOLOGIES INC.

### THIRD AMENDED AND RESTATED STOCK OPTION PLAN

The purpose of this Third Amended and Restated Stock Option Plan (the **"Plan"**) is to advance the interests of Novadaq Technologies Inc. (the **"Company"**) by (i) providing Eligible Persons (as defined herein) with additional incentives; (ii) encouraging share ownership by Eligible Persons; (iii) increasing the proprietary interest of Eligible Persons in the success of the Company; (iv) encouraging Eligible Persons to remain with the Company or its Affiliates (as defined herein); and (v) attracting new employees, senior officers, directors and Consultants (as defined herein) to the Company or its Affiliates.

#### ARTICLE 1 GENERAL PROVISIONS

##### 1.1. Previously Issued and Outstanding Options Continued

All stock purchase options issued and outstanding under previous option agreements, option grants or stock option plans of the Company (collectively, **"Previous Plans"**) are hereby continued as if issued or granted under this Plan.

##### 1.2. Administration

- (a) The Board, or such committee of the Board to which the Board may choose to delegate such authority, will administer this Plan. In the event of such delegation, all references to the term **"Board"** will be deemed to include references to such committee.
- (b) Subject to the limitations of this Plan, the Board has the authority: (i) to grant Options to purchase Shares to Eligible Persons; (ii) to determine the terms, including the limitations, restrictions and conditions, if any, upon such grants; (iii) to interpret this Plan and to adopt, amend and rescind such administrative guidelines and other rules relating to this Plan as it may from time to time deem advisable, subject to required prior approval by any applicable Stock Exchange or Governmental Entity; and (iv) to make all other determinations and to take all other actions in connection with the implementation and administration of this Plan as it may deem necessary or advisable. The Board's guidelines, rules, interpretations and determinations will be conclusive and binding upon the Company and all Participants and Eligible Persons. No member of the Board or any person acting pursuant to authority delegated by it hereunder shall be liable for any action or determination in connection with the Plan made or taken in good faith, and each member of the Board and each such person shall be entitled to indemnification by the Company with respect to any such action or determination.

##### 1.3. Interpretation

For the purposes of this Plan, the following terms will have the following meaning unless otherwise defined elsewhere in this Plan:

- (a) **"Affiliate"** means an affiliated entity of the Company within the meaning of National Instrument 45-106 – *Prospectus Exemptions*, as amended from time to time;
- (b) **"Associate"** has the meaning set out in National Instrument 45-106 – *Prospectus Exemptions*, as amended from time to time;
- (c) **"Board"** means the Board of Directors of the Company or, as applicable, such committee of the Board to which the Board may choose to delegate authority to administer the Plan;
- (d) **"Business Day"** means any day other than a Saturday, Sunday or statutory or civic holiday in the City of Toronto, Ontario;
- (e) **"Change of Control"** means:
  - (i) a reorganization, amalgamation, merger or other business combination (or a plan of arrangement in connection with any of the foregoing), other than solely involving the Company and any one or more of its Affiliates, with respect to which all or substantially all of the persons who were the beneficial owners of the Shares and other securities of the Company immediately prior to such reorganization, amalgamation, merger, business combination or plan of arrangement do not, following the completion of such reorganization, amalgamation, merger, business combination or plan of arrangement, beneficially own, directly or indirectly, more than fifty percent (50%) of the resulting voting shares (on a fully-diluted basis) of the Company or its successor;
  - (ii) the sale to a person other than an Affiliate of the Company of all or substantially all of the Company's assets; or
  - (iii) a change in the composition of the Board, which occurs at a single meeting of the shareholders of the Company or upon the execution of a shareholders' resolution, such that individuals who are members of the Board immediately prior to such meeting or resolution cease to constitute a majority of the Board, without the Board, as constituted immediately prior to such meeting or resolution, having approved of such change.
- (f) **"Consultant"** means a person or company, other than an employee, senior officer or director of the Company, that: (i) is engaged to provide services to the Company or an Affiliate, other than services provided in relation to a distribution, (ii) provides the services under a written contract with the Company or an Affiliate, and (iii) spends or will spend a significant amount of time and attention on the affairs and business of the Company or an Affiliate;
- (g) **"Company"** means Novadaq Technologies Inc. or any successor thereof;

- (h) **"Date of Grant"** means the date on which a particular Stock Option is granted by the Board;
- (i) **"Disability"** means the inability of a Participant to perform the duties associated with his or her position for 270 consecutive days as a result of his or her incapacity due to physical or mental illness;
- (j) **"Eligible Person"** means, subject to all applicable laws, any employee, senior officer, director or Consultant of (i) the Company or (ii) any Affiliate of the Company (and includes any such person who is on a leave of absence authorized by the Board or the board of directors of any Affiliate); provided, however, that a person subject to taxation in the United States shall only be an Eligible Person if such person is an employee, senior officer, director or Consultant of the Company or an employee, senior officer, director or Consultant of an entity in which the Company has a "controlling interest" as defined in Section 409A;
- (k) **"Exercise Period"** means the period from the Vesting Date to the Expiry Date, both inclusive, during which a particular Stock Option may be exercised;
- (l) **"Exercise Price"** means, with respect to a Stock Option:
  - (i) if, on the Date of Grant, the Shares are not listed on a Stock Exchange, such amount as the Board may determine as being the fair market value of the Shares as at that date; and
  - (ii) if, on the Date of Grant, the Shares are listed on a Stock Exchange, the volume weighted average trading price of the Shares on such Stock Exchange for the five (5) trading days immediately preceding the day on which the Stock Option is granted, or such greater amount as the Board may determine; provided, however, that the Exercise Price of a Stock Option shall not be less than the minimum Exercise Price required by the applicable rules of the Stock Exchange;
- (m) **"Expiry Date"** means the date after which a particular Stock Option can no longer be exercised, subject to amendment in accordance with the terms hereof;
- (n) **"Governmental Entity"** means any applicable (a) multinational, federal, provincial, state, municipal, local or other governmental or public department, commission, board, bureau or agency, (b) any subdivision or authority of any of the foregoing, or (c) any quasi-governmental body exercising (with proper jurisdiction) any regulatory or taxing authority under or in respect of any of the above;
- (o) **"Insider"** has the meaning ascribed to "reporting insiders" in National Instrument 55-104 - *Insider Reporting Requirements and Exemptions*;
- (p) **"Involuntary Termination"** means

- (i) in respect of any employee or senior officer of the Company or any of its Affiliates:
  - (A) any express or implied termination by the Company or any of its Affiliates of such employee or senior officer's employment which is not due to the termination of his or her employment for cause or on account of death or Disability;
  - (B) the assignment of duties to such employee or senior officer that are materially inconsistent with his or her position, duties, responsibilities and status immediately prior to such assignment;
  - (C) any material reduction of such employee's or senior officer's total compensation including base salary and incentive compensation package, vacation entitlement or employee benefits; or
  - (D) any change in excess of 100 kilometres in the location at which the employee or senior officer predominantly performs his or her duties without his or her consent, except for required travel on business to an extent substantially consistent with his or her business obligations; and
- (ii) in respect of any Non-Employee Director, such director ceasing to be a director for any reason other than as a result of voluntary resignation, death or Disability, including, for greater certainty, ceasing to be a director as a result of resignation following a request therefor or following a material reduction in the director's compensation, removal or failure to be elected or appointed.
- (q) **"LTIP"** means the Amended and Restated Long-Term Incentive Plan of the Company effective as of the date hereof;
- (r) **"Non-Employee Director"** means any director of the Company who is not also acting as, or was acting as during the time of grant of Options, the President, Chief Executive Officer, Chief Financial Officer and/or another senior officer or employee of the Company or Affiliate;
- (s) **"Notice of Grant"** means a notice of grant in substantially the form attached hereto as Schedule "A";
- (t) **"Participant"** means an Eligible Person to whom a Stock Option has been granted;
- (u) **"Plan"** means this Third Amended and Restated Stock Option Plan;
- (v) **"Reserved for Issuance"** means Shares which may be issued upon the exercise of Stock Options;

- (w) **"Section 409A"** means Section 409A of the United States Internal Revenue Code of 1986, as amended;
- (x) **"Shares"** means the common shares in the capital of the Company and includes any shares of the Company into which such shares may be changed, classified, reclassified, subdivided, consolidated or converted from time to time;
- (y) **"Stock Option"** means an option to purchase Shares from treasury granted hereunder to a Participant;
- (z) **"Stock Exchange"** means the Toronto Stock Exchange or such other stock exchange or quotation system on which the Shares are listed or quoted from time to time;
- (aa) **"Substitution Event"** means (i) a Change of Control, or (ii) a merger, amalgamation, arrangement, business combination or other transaction pursuant to which the Shares of the Company are converted into, or exchanged for, other property, whether in the form of securities of another corporation, cash or otherwise;
- (bb) **"Termination Date"** means the date on which a Participant ceases to be an Eligible Person as a result of a termination of employment or retention with the Company or an Affiliate for any reason. For the purposes of the Plan, a Participant's employment or retention with the Company or an Affiliate shall be considered to have terminated effective on the last day of the Participant's actual and active employment or retention with the Company or an Affiliate, whether such day is selected by agreement with the individual, or unilaterally by the Participant or the Company or an Affiliate, and whether with or without advance notice to the Participant. For the avoidance of doubt, no period of notice or pay in lieu of notice that is given or that ought to have been given under applicable law in respect of such termination of employment or retention that follows or is in respect of a period after the Participant's last day of actual and active employment or retention shall be considered as extending the Participant's period of employment or retention for the purposes of determining his or her entitlement under the Plan;
- (cc) **"Transfer"** includes any sale, exchange, assignment, gift, bequest, disposition, mortgage, charge, pledge, encumbrance, grant of security interest or other arrangement by which possession, legal title, beneficial ownership or the risk of economic exposure passes from one person to another, or to the same person in a different capacity, whether or not voluntary or not voluntary and whether or not for value, and any agreement to effect any of the foregoing; and
- (dd) **"US Participant"** means a Participant that is subject to taxation in the United States;
- (ee) **"Vesting Date"** means the date or dates determined in accordance with Section 2(3) on and after which a particular Stock Option, or any part thereof, may be

exercised, subject to amendment or acceleration from time to time in accordance with the terms hereof.

In this Plan words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine.

This Plan is to be governed by and interpreted in accordance with the laws of the Province of Ontario.

#### **1.4. Shares Reserved**

- (a) The maximum number of Shares Reserved for Issuance under the Plan and pursuant to any other security based compensation arrangement of the Company (including under the LTIP) shall be equal to 10% of the number of shares in the capital of the Company that are issued and outstanding from time to time on a non-diluted basis.
- (b) The number of Shares Reserved for Issuance that: (i) have vested and been exercised, (ii) were not exercised within the Exercise Period, or (iii) have been forfeited, surrendered, cancelled or otherwise terminated prior to the delivery of the Shares pursuant to a grant of Stock Options shall, in each case, automatically become available to be made and subject to new grants under this Plan.
- (c) Unless the Company has received requisite Shareholder approval, under no circumstances shall this Plan, together with all of the Company's previously established or proposed compensation or incentive plans or mechanisms involving the issuance or potential issuance of Shares, including the LTIP, result, at any time, in:
  - (i) the aggregate number of Shares issuable to Insiders (as a group) at any point in time exceeding 10% of the Company's issued and outstanding Shares on a non-diluted basis;
  - (ii) the issuance to Insiders (as a group), within a one-year period, of an aggregate number of Shares exceeding 10% of the Company's issued and outstanding Shares on a non-diluted basis; or
  - (iii) the grant to (a) Non-Employee Directors, as a group, of an aggregate number of Shares exceeding 1% of the Company's issued and outstanding Shares on a non-diluted basis, or (b) any individual Non-Employee Director of more than \$150,000 worth of Shares annually, provided that the maximum amount of Shares Reserved for Issuance under this Plan in any given one-year period for any individual Non-Employee Director may not exceed \$100,000.

## **ARTICLE 2 SHARE OPTION PLAN**

### **2.1. Application**

Grants of Stock Options to Eligible Persons shall be governed by this Article 2.

## **2.2. Grants**

The Board may from time to time in its sole discretion determine those Eligible Persons, if any, to whom Stock Options are to be granted and the number of Shares in respect of which each Stock Option may be exercised. The award of a Stock Option to an Eligible Person at any time shall neither entitle such Eligible Person to receive nor preclude such Eligible Person from receiving a subsequent Stock Option.

## **2.3. Expiry Date; Vesting of Options**

- (a) Subject to Section 2.5 and any applicable rules of the Stock Exchange, and unless otherwise fixed by the Board at the time the particular Stock Option is granted and set forth in the Notice of Grant, the Expiry Date of a Stock Option will be the tenth (10<sup>th</sup>) anniversary of the Date of Grant.
- (b) Notwithstanding any other provision hereof (but subject to the last sentence of this Section 2.3(b)), if the Expiry Date of any vested Stock Option falls on, or within nine (9) Business Days immediately following, a date upon which such Eligible Person is prohibited from exercising such Stock Option due to a black-out period or other trading restriction imposed by the Company, then such options will automatically be deemed to, without any further act or formality, expire instead on the date which is the tenth (10<sup>th</sup>) Business Day after the end of the relevant black out period, such tenth (10<sup>th</sup>) Business Day to be considered the expiration of the term of such option for all purposes under this Plan. Notwithstanding the foregoing, no Stock Option granted to a US Participant may be extended beyond the original Expiry Date set forth in the Notice of Grant
- (c) Unless otherwise fixed by the Board at the time the particular Stock Option is granted and set forth in the Notice of Grant, and subject to Section 2.5, Stock Options will vest over a three (3) year period and may be exercised in whole or in part at any time from time to time as follows:

| <b>PERIOD</b>                                       | <b>NUMBER OF STOCK OPTIONS<br/>VESTED</b> |
|-----------------------------------------------------|-------------------------------------------|
| On or after the first anniversary of Date of Grant  | 33%                                       |
| On or after the second anniversary of Date of Grant | 67%                                       |
| On or after the third anniversary of Date of Grant  | 100%                                      |

## **2.4. Exercise Price**

The exercise price for the Shares underlying a Stock Option will be the Exercise Price.

## 2.5. Termination, Retirement, Death, Departure

Any Stock Option or part thereof not exercised within the Exercise Period will terminate and become null, void and of no effect as of the day immediately following the Expiry Date determined under Section 2.3(a) hereof, unless the Expiry Date is determined to be an earlier date as follows:

- (a) **Death** - The Expiry Date of a Stock Option held by a Participant that had vested immediately prior to his or her death will be the earlier of the expiry date shown on the relevant Notice of Grant and the date that is one hundred and eighty (180) days after the date of his or her death. Stock Options that are outstanding but unvested immediately prior to a Participant's death will immediately terminate and become null, void and of no effect upon the death of the Participant. If a Participant dies, the legal representatives of the Participant may exercise such of the Participant's Stock Options that, by their terms, were exercisable on the date of death, prior to the Expiry Date.
- (b) **Disability** - In the event of the Disability of a Participant, the Board may in its discretion determine that such Participant shall no longer be an Eligible Person. In the event a Participant ceases to be an Eligible Person as a result of Disability, then the Expiry Date of a Stock Option that had vested on the date such Participant ceases to be an Eligible Person will be the earlier of the expiry date shown on the relevant Notice of Grant and the date one hundred and eighty (180) days following the date such Participant ceases to be an Eligible Person. Stock Options that are outstanding but unvested on the date such Participant ceases to be an Eligible Person will immediately terminate and become null, void and of no effect.
- (c) **Retirement** - In the event a Participant ceases to be an Eligible Person as a result of his or her retirement in accordance with the Company's then applicable retirement policy, the Expiry Date of a Stock Option that had vested on the date such Participant ceases to be an Eligible Person will be the earlier of the Expiry Date shown on the relevant Notice of Grant and the date one hundred and eighty (180) days following the date such Participant ceases to be an Eligible Person. The Stock Options that are outstanding but unvested on the date such Participant ceases to be an Eligible Person will immediately terminate and become null, void and of no effect.
- (d) **Voluntary Resignation, Termination of Employment or Ceasing to be a Consultant.** In the event a Participant ceases to be an Eligible Person as a result of (i) his or her voluntary resignation, (ii) termination, whether with cause or without cause, from any position or employment with the Company or its Affiliates (other than his or her retirement), or (iii) the termination of the Participant's service agreement, whether for breach of agreement or otherwise, then the Expiry Date of a Stock Option that had vested on the date such Participant ceases to be an Eligible Person will be the earlier of the Expiry Date shown on the relevant Notice of Grant and the date thirty (30) days following the date such Participant ceases to be an Eligible Person. The Stock Options that are

outstanding but unvested on the date such Participant ceases to be an Eligible Person will, subject to Section 5.1, immediately terminate and become null, void and of no effect. For purposes of the Plan, a Participant's employment shall conclusively be deemed to have ceased on the date that such Participant ceases to be actually and actively employed by the Company or its Affiliates (and for greater certainty shall not include any notice period required by any applicable statute or common law).

- (e) **Ceasing to be a Director** – In the event that a Participant who is a director of the Company (and not an employee or senior officer of the Company or any of its Affiliates) ceases to be a director, then the Expiry Date of a Stock Option that had vested on the date such Participant ceases to be a director will be the earlier of the Expiry Date shown on the relevant Notice of Grant and the date that is one hundred and eighty (180) days following the date such Participant ceases to be an Eligible Person. The Stock Options that are outstanding but unvested on the date such Participant ceases to be a director will, subject to Section 5.1, immediately terminate and become null, void and of no effect. The Participant shall have no entitlement to damages or other compensation arising from or related to not receiving any awards which would have vested or accrued to the Participant after the Termination Date. However, nothing herein is intended to limit any statutory or other legal entitlements on termination and such statutory or other legal entitlements shall, if required, apply despite this language to the contrary.
- (f) Notwithstanding anything contained herein to the contrary, the Board shall not have discretion to extend the original Expiry Date set forth in the Notice of Grant for any Stock Option granted to a US Participant.

## **2.6. Notice of Grant**

Each Stock Option must be confirmed, and will be governed, by a Notice of Grant signed by the Company and the Participant.

## **2.7. Shareholder Approval**

Where required by the Stock Exchange or any Governmental Entity, shareholder approval to the grant of Stock Options shall be obtained prior to the exercise of Stock Options granted by the Company.

## **2.8. Payment of Exercise Price; Exercise of Stock Options**

- (a) Stock Options may only be exercised by the Participant or his or her legal representative. Participants may exercise their Stock Options, subject to the restrictions set out below, to acquire Shares by delivering to the Company a notice of option exercise (the "**Exercise Notice**"), substantially in the form attached hereto as Schedule "B", together with a bank draft or certified cheque in an amount equal to the aggregate Exercise Price of the Shares to be purchased pursuant to the exercise of Stock Options.

- (b) Notwithstanding Section 2.8(a) hereof, but subject to any adjustments contemplated by Section 5.2, Stock Options may not be exercised unless the aggregate purchase price of the Shares acquired on exercise of such Stock Options is greater than or equal to US\$1,000.
- (c) As soon as practicable following the receipt of the Exercise Notice and a bank draft or certified cheque in accordance with Section 2.8(a), the Company will deliver to the Participant a certificate for the Shares so purchased.
- (d) The issuance of Shares by the Company to a Participant pursuant to the exercise of any Stock Option is subject to compliance with all applicable laws, rules and regulations of all Governmental Entities applicable to the issuance and distribution of such Shares and to the requirements of any Stock Exchange on which the Shares may be listed or quoted, including any requirements with respect to the legending of certificates representing the Shares issued pursuant to the exercise of any Stock Option. The Participant agrees: (i) to comply with all such laws, rules, regulations and requirements, (ii) to furnish to the Company any information, report and/or undertakings required to comply with all such laws, rules, regulations and requirements, and (iii) to fully cooperate with the Company in complying with such laws, rules, regulations and requirements.
- (e) Upon the exercise of Stock Options, Eligible Persons who are employed by the Company or an Affiliate shall have withheld at source from other remuneration all income, social security and other payroll taxes and withholdings required by law on the employment benefit realized upon the exercise.

## **2.9. Amendment of Option Plan**

- (a) The Board shall have the power and authority to approve amendments relating to the Plan and to the Stock Options, without further approval of the shareholders or Participants, to the extent such amendment:
  - (i) is for the purpose of curing any ambiguity, error or omission in the Plan or to correct or supplement any provision of the Plan that is inconsistent with any provision of the Plan;
  - (ii) is necessary to comply with applicable law or the requirements of the TSX;
  - (iii) is an amendment to the Plan respecting administration of the Plan;
  - (iv) alters, extends or accelerates the terms of vesting applicable to any Stock Option;
  - (v) changes the termination provisions of a Stock Option or the Plan which does not entail an extension beyond the original expiry date of a Stock Option;
  - (vi) is an amendment to the Plan of a “housekeeping nature”; or

- (vii) does not require shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of TSX).
- (b) Notwithstanding Section 2.9(a), the Board shall be required to obtain shareholder approval in order to: (i) increase the maximum number of Shares issuable under the Plan, (ii) reduce the exercise price or purchase price of any Stock Option or cancel and reissue any Stock Option, (iii) extend the term of any Stock Option beyond the original Expiry Date, (iv) make a change to the class of persons eligible to participate under the Plan, (v) make any amendment which would permit any Stock Option granted under the Plan to be transferable or assignable other than by will or under succession laws (estate settlement), (vi) increase the participation limits prescribed in Section 1.4(c) relating to the grant of Stock Option to Non-Employee Directors and Insiders, or (vii) amend this Section 2.9 of the Plan.

#### **2.10. Assignment of Stock Options**

Stock Options (and any rights thereunder) are not assignable or Transferable. Any purported assignment or Transfer of Stock Options will not be recognized by the Company and will result in the immediate expiry and termination of any such Stock Options and any rights relating thereto.

#### **2.11 Alternative Share Compensation Arrangements**

Notwithstanding any other provision of this Plan, the Board may, in its discretion, enter into alternative share compensation arrangements with Eligible Persons who are non-residents if the Board determines that, as a result of the tax consequences of Stock Option grants under this Plan to such non-resident Eligible Persons, the tax consequences to such non-resident Eligible Persons are materially adverse to such non-resident Eligible Persons as compared to the tax consequences of Stock Option grants to Eligible Persons that are not non-residents. In such circumstances the Board may choose to structure an alternative share compensation arrangement that does not provide material adverse tax consequences to such non-resident Eligible Persons, but that is substantially economically equivalent, in the Board's determination, to the grant of Stock Options under the Plan and is not otherwise materially prejudicial to the Company. For greater certainty, any Shares issued pursuant to any alternative share compensation arrangements under this Section 2.11 shall be considered to be Stock Options for the purposes of determining the number of Shares issuable pursuant to this Plan.

### **ARTICLE 3 ASSUMPTION OR SUBSTITUTION OF STOCK OPTIONS**

#### **3.1. Substitution**

- (a) In the event of a Substitution Event, any surviving or acquiring corporation must, unless Article 4 applies:
  - (i) assume any Stock Option outstanding under the Plan on substantially the same economic terms and conditions as the Plan; or

- (ii) substitute or replace similar stock options (including an award to acquire the same consideration paid to the securityholders of the Company in the transaction effecting the Substitution Event) for those Stock Options outstanding under the Plan on substantially the same economic terms and conditions as the Plan.
- (b) In the event any surviving or acquiring Company neglects or refuses (as determined by the Board, acting reasonably) to assume any Stock Options or to substitute or replace similar stock options for those outstanding Stock Options under the Plan in connection with a Substitution Event, then with respect to any Stock Options held by Participants, the vesting of such Stock Options (and, if applicable, the time during which such Stock Options may be exercised) will automatically and without further action by the Board or the Company be immediately accelerated so that such Stock Options will be fully vested. In addition, in such event, the Board may determine that outstanding Stock Options will terminate if not exercised (if applicable) at or prior to such Substitution Event.
- (c) No fractional Shares or other security will be issued upon the exercise of any Stock Option and, accordingly, if as a result of a Substitution Event or otherwise, a Participant would become entitled to a fractional Share or other security, such Participant will have the right to acquire only the next lowest whole number of Shares or other security and no payment or other adjustment will be made with respect to the fractional interest so disregarded; provided, however, that a cash payment equal to the value of all fractional interests disregarded pursuant to this Section 3.1(c) shall be made to a Participant if the number of Stock Options so disregarded exceeds five percent (5%) of the total number of Stock Options exercised by such Participant; provided, further, that the foregoing proviso shall not apply to US Participants.
- (d) Notwithstanding any other provision of this Plan, in the event of a potential Substitution Event, the Board may, in its discretion: (i) terminate, conditionally or otherwise and on such terms as it sees fit, the Stock Options not exercised following successful completion of such Substitution Event; and (ii) accelerate, conditionally or otherwise and on such terms as it sees fit, the Vesting Date or otherwise modify the terms of the Stock Options to assist the Participants to obtain the advantage of holding Shares during the Substitution Event. If the Substitution Event referred to in this Article 3 is not completed during the time specified therein (as the same may be extended), the Stock Options which vested pursuant to this Article 3 must be returned by the Participant to the Company and will be reinstated as unvested Stock Options and the original terms applicable to such Stock Options will apply. If any of the Stock Options that vested pursuant to this Article 3 were exercised, such Shares must be returned to the Company for cancellation. The determination of the Board in respect of any such Substitution Event will for the purposes of this Plan be final, conclusive and binding. Notwithstanding the foregoing, any Stock Option granted to a US

Participant shall only be adjusted in such a manner that complies with Section 409A.

## ARTICLE 4 TAKE-OVER BIDS

### 4.1. Take-over Bids

- (a) In the event of a “**potential change of control following a take-over bid**” (as defined herein), the Board may, in its discretion, conditionally or otherwise and on such terms as it sees fit, accelerate the Vesting Date of all of a Participant’s unvested Stock Options to a date prior to the expiry date of such bid or offer, such that all of a Participant’s Stock Options will immediately vest at such time and the Vesting Date in connection with such Stock Options will be adjusted accordingly. In such event, all Stock Options so vested will be exercisable, conditionally or otherwise, from such date until their respective Expiry Dates so as to permit the Participant to tender the Shares received upon such exercise pursuant to the bid or offer. For purposes of this Article 4, a “**potential change of control following a take-over bid**” will be deemed to occur upon a formal bid or tender offer for Shares being made as a result of which the offeror and its affiliates would, if successful, beneficially own, directly or indirectly, fifty percent (50%) or more of the Shares then outstanding.
- (b) Notwithstanding any other provisions of this Plan, in the event of a potential change of control following a take-over bid, the Board will have the power, if determined appropriate (i) to terminate, conditionally or otherwise and on such terms as it sees fit, the Stock Options not exercised following successful completion of such event, and/or (ii) to modify the terms of the Stock Options, conditionally or otherwise and on such terms as it sees fit, in order to assist the Participants to tender their securities into the take-over bid, including for greater certainty permitting such Participants to exercise their Stock Options on a “cashless” basis. For greater certainty, in the event that the acquiring entity acquires one hundred percent (100%) of the outstanding Shares following the take-over bid, the Board will have the power, if determined appropriate, to terminate the Stock Options not exercised upon the expiry of the time period for tendering to the acquiring entity for purchase.
- (c) If the take-over bid referred to in Section 4.1(a) is not completed within the time specified therein (as the same may be extended), the Stock Options that vested pursuant to Section 4.1(a) (if any) must be returned by the Participant to the Company and will be reinstated as unvested Stock Options and the original terms applicable to such Stock Options will apply. If any of the Stock Options that vested pursuant to this Section 4.1(a) (if any) were exercised, such Shares must be returned to the Company for cancellation. The determination of the Board with respect to any such event will for the purposes of this Plan be final, conclusive and binding.

## ARTICLE 5 MISCELLANEOUS

### 5.1. Involuntary Termination

In the event of a Substitution Event or a change of control (as defined below) and upon an Involuntary Termination of the Participant at any time within the ninety day (90) day period prior to or the one hundred and eighty (180) day period following the date of completion of the transaction effecting such Substitution Event or change of control, all of a Participant's unvested Stock Options will immediately vest, and the Vesting Date in connection with such Stock Options will be adjusted accordingly. For the purposes of this section 5.1, a "change of control" will be deemed to occur upon a formal bid or tender offer for Shares being made as a result of which the offeror and its affiliates acquires beneficial ownership (directly or indirectly) of fifty percent (50%) or more of the Shares then outstanding, or upon any issuance of Shares by the Company (whether by way of public offering or private placement) that results in a single shareholder acquiring beneficial ownership (directly or indirectly) of fifty percent (50%) or more of the Shares outstanding after such issuance (provided that such shareholder did not, at the time of such issuance, have beneficial ownership, direct or indirect, of fifty percent (50%) or more of the Shares).

## **5.2 Capital Adjustments**

If there is any change in the outstanding Shares by reason of a stock dividend or split, recapitalization, consolidation, combination or exchange of shares, reclassification, conversion or other fundamental corporate change, the Board will make, subject to any prior approval required of the Stock Exchange or other applicable Governmental Entities, if any, an appropriate substitution or adjustment to the Shares or other securities of the Company, including in (i) the number or kind of shares or other securities reserved for issuance pursuant to this Plan; and (ii) the exercise price of those unexercised Stock Options; provided, however, that no substitution or adjustment will obligate the Company to issue fractional Shares upon the exercise of a Stock Option. Notwithstanding the foregoing, any Stock Option granted to a US Participant shall only be adjusted in such a manner that complies with Section 409A.

## **5.3. Non-Exclusivity**

Nothing contained herein will prevent the Board from adopting other or additional compensation arrangements for the benefit of any Eligible Person or Participant, subject to any required Stock Exchange, regulatory or shareholder approval.

## **5.4. Termination**

- (a) The Board may amend, suspend or terminate this Plan or any portion thereof at any time in accordance with applicable legislation, and subject to any required regulatory or shareholder approval. Subject to Articles 3 and 4 hereof, no amendment, suspension or termination will alter or impair any Stock Options under the Plan, or any rights pursuant thereto, granted previously to any Participant without the consent of that Participant.
- (b) If this Plan is terminated, the provisions of this Plan and any administrative guidelines, and other rules adopted by the Board and in force at the time of this Plan, will continue in effect as long as any Stock Options under the Plan or any rights pursuant thereto remain outstanding. However, notwithstanding the

termination of the Plan, the Board may make any amendments to the Plan or Stock Options it would be entitled to make if the Plan were still in effect.

**5.5. Compliance with Legislation**

The Board may postpone or adjust the exercise of any Stock Option or the issue of any Shares pursuant to this Plan as the Board in its discretion may deem necessary in order to permit the Company to effect or maintain qualification of this Plan or the Shares issuable pursuant thereto under the securities laws of any applicable jurisdiction, or to determine that the Shares and this Plan are exempt from such registration. The Company is not obligated by any provision of this Plan or any grant hereunder to sell or issue shares in violation of any applicable law. In addition, if the Shares are listed on a Stock Exchange, the Company will have no obligation to issue any Shares pursuant to this Plan unless the Shares have been duly listed, upon official notice of issuance, on the Stock Exchange on which the Shares are listed for trading.

**5.6. Section 409A**

The Stock Options granted to each US Participant are intended to be exempt from Section 409A and each Stock Option and this Plan shall be interpreted consistent with such intent. Neither the Company nor any Affiliate shall have any liability with respect to taxes or other penalties imposed by Section 409A. Notwithstanding any provision of this Plan to the contrary, with respect to a US Participant, (i) the period in which the Stock Option may be exercised shall not be extended beyond the original Expiry Date set forth in the Notice of Grant and (ii) the exercise price shall not be reduced, in either case, unless such extension or reduction complies with Section 409A.

**5.7. Effective Date**

This Plan will become effective upon the approval of the Plan by the Board, subject to any required Stock Exchange, regulatory and/or shareholder approval.

**5.8. No Other Rights**

Nothing herein contained and no grant of Stock Options pursuant to the Plan shall be deemed to give any Eligible Person the right to be retained as an Eligible Person or the right to be retained as an employee, senior officer, director or Consultant of the Company. For greater certainty, a period of notice, if any, or payment in lieu thereof, upon termination of employment, wrongful or otherwise, shall not be considered as extending the period of employment for the purposes of the Plan. Stock Options are not Shares, and the grant of a Stock Option to an Eligible Person does not entitle such Eligible Person to any rights as a shareholder of the Company.

**SCHEDULE "A"**  
**NOTICE OF GRANT OF STOCK OPTIONS**

**NOVADAQ TECHNOLOGIES INC.**

Telephone: (905) 629-3822

Facsimile: (905) 629-0282

**[Date]**

**[Name & Address]**

Dear **[Name]**:

This is to advise you that in recognition of your contribution to our business, you have been selected to participate in the Third Amended and Restated Stock Option Plan (the "Plan") of Novadaq Technologies Inc. (the "Company"). On \_\_\_\_\_ you were granted a stock option to acquire \_\_\_\_\_ common shares of the Company at a price of \$\_\_\_\_\_ per common share.

Your stock option is subject to the provisions of the Plan, a copy of which is attached to this notice. The stock option granted to you by the Company will be vested in accordance the Plan and as follows:

| <b>PERIOD</b>                                       | <b>NUMBER OF STOCK OPTIONS<br/>VESTED</b> |
|-----------------------------------------------------|-------------------------------------------|
| On or after the first anniversary of Date of Grant  | 33%                                       |
| On or after the second anniversary of Date of Grant | 67%                                       |
| On or after the third anniversary of Date of Grant  | 100%                                      |

The Expiry Date of your stock options is \_\_\_\_\_.

By accepting this grant you represent and warrant to the Company that your participation in the Company's Plan is voluntary and that you have not been induced to participate by expectation of engagement, appointment, employment, continued engagement, continued appointment or continued employment, as applicable.

You acknowledge that you have no entitlement to damages or other compensation arising from or related to not receiving any awards which would have vested or accrued to you after the Termination Date. However, nothing herein is intended to limit any statutory or other legal entitlements on termination and such statutory or other legal entitlements shall, if required, apply despite this language to the contrary. In addition, no period of notice or payment in lieu of notice that follows your last day of actual and active employment shall be deemed to extend your period of employment for the purposes of determining your entitlement under the Plan.

The grant of options described above is strictly confidential and the information concerning the number or price of shares granted under this option should not be disclosed to anyone.

Yours sincerely,

The undersigned acknowledges receipt of a copy of the Plan and acknowledges and agrees that the undersigned's Stock Options are subject to and governed by the provisions of the Plan.

Dated this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

---

[Name]

**SCHEDULE "B"**

**NOTICE OF OPTION EXERCISE**

**NOVADAQ TECHNOLOGIES INC.  
THIRD AMENDED AND RESTATED STOCK OPTION PLAN**

To: Chief Financial Officer, Novadaq Technologies Inc. (the "**Company**")

Please be advised that in connection with stock options granted to me under the Company's Third Amended and Restated Stock Option Plan pursuant to the Notice of Grant of Stock Options dated \_\_\_\_\_ (the "**Stock Options**"), the undersigned hereby wishes to exercise his or her option to purchase \_\_\_\_\_ shares (the "**Option Shares**") in the capital of the Company at a price of \$\_\_\_\_\_ per share, for a total payment of \$\_\_\_\_\_ (the "**Exercise Payment**"). I hereby agree to assist the Company in the filing of, and will file on a timely basis, all reports that I may be required to file under applicable securities laws. I understand that the fair market value assigned to my Stock Options for income tax purposes will be the closing price of the shares of the Company on the TSX (or such other stock exchange or over the counter quotation system on which the shares may be listed or quoted from time to time) on the date of this exercise. I further understand that this request to exercise my Stock Options is irrevocable.

Please find enclosed a bank draft or certified cheque in the amount of \$\_\_\_\_\_, representing the aggregate Exercise Payment payable to the Company in full payment for the Option Shares.

The Option Shares issued on the exercise of my Stock Options specified above are to be registered as follows:

---

*(Print Registrant's Name)*

---

*(Address)*

---

---

*(Telephone Number)*

---

*(Facsimile Number)*

---

*(E-Mail Address)*

---

*(Optionee's Signature)*

---

*(Date)*

**Appendix "C-1"**  
**LTIP RESOLUTION**

**BE IT RESOLVED, AS AN ORDINARY RESOLUTION, THAT:**

1. The proposed amendments to the company's Long Term Incentive Plan, which following such amendments, will be referred to as the "Amended and Restated Long Term Incentive Plan" (the "**LTIP**"), as set out in further detail in the Corporation's Management Information Circular dated April 17, 2017, is hereby approved.
2. The unallocated units under the LTIP are hereby reconfirmed and approved. For purposes of clarity, the maximum number of the Corporation's common shares reserved for issuance under the LTIP shall be inclusive of any the common shares issuable pursuant to any other security based compensation arrangement of the Corporation, including outstanding options under the Corporation's Second Amended and Restated Stock Option Plan, as amended.
3. The Corporation shall have the ability to continue granting unallocated restricted share units and deferred share units under the LTIP until May 17, 2020, the date that is three (3) years from the date when shareholder approval is being sought.
4. Any officer of the Corporation be and is hereby authorized, for and on behalf of the Corporation, to execute or cause to be executed and to deliver or to cause to be delivered, all such other documents and instruments, and to do or cause to be done all other such acts and things, as in the opinion of such officer the Corporation may be necessary or desirable to carry out the intent of the foregoing resolutions, such necessity or desirability to be conclusively evidenced by the execution and delivery of any such documents or instruments or the taking of any such actions.

**Appendix "C-2"**  
**AMENDED AND RESTATED LONG-TERM INCENTIVE PLAN**  
**(attached)**



## **AMENDED AND RESTATED LONG TERM INCENTIVE PLAN**

**Effective as of May 17, 2017**

## NOVADAQ TECHNOLOGIES INC.

### AMENDED AND RESTATED LONG TERM INCENTIVE PLAN

The purpose of this Plan is to advance the interests of the Company by: (i) providing Eligible Persons with additional incentives; (ii) rewarding performance by Participants; (iii) increasing the proprietary interest of Participants in the success of the Company; (iv) encouraging Participants to remain with the Company or its Affiliates; and (v) attracting new directors, employees, officers and Consultants to the Company or its Affiliates.

#### ARTICLE 1 INTERPRETATION; ADMINISTRATION

##### Section 1.1 Definitions

For the purposes of this Plan, the following terms shall have the following meanings:

- (a) **"Affiliate"** has the meaning ascribed to that term under National Instrument 45-106 – *Prospectus Exemptions*, as amended from time to time;
- (b) **"Annual Board Retainer"** means the annual retainer paid by the Company to a director in a Fiscal Year for service on the Board, together with Board committee fees, attendance fees and additional fees and retainers to committee chairs;
- (c) **"Applicable Withholding Taxes"** has the meaning ascribed thereto in Section 3.4;
- (d) **"Associate"** has the meaning ascribed to that term under National Instrument 45-106 – *Prospectus Exemptions*, as amended from time to time;
- (e) **"Award Date"** means the date(s) during the Fiscal Year on which the Annual Board Retainer is awarded;
- (f) **"Board"** means the Board of Directors of the Company or, as applicable, such committee of the Board to which the Board may choose to delegate authority to administer the Plan;
- (g) **"Business Day"** means any day other than a Saturday, Sunday or statutory or civic holiday in the City of Toronto, Ontario;
- (h) **"Cash Equivalent"** means (a) if the Participant regularly receives salary, wages or Annual Board Retainer in United States dollars, the Market Value multiplied by the number of vested Units in the Participant's notional account, net of any Applicable Withholding Taxes, on the Settlement Date or DSU Termination Date, as applicable, or (b) the Market Value converted into the currency in which the Participant regularly receives wages, salary or Annual Board Retainer, multiplied by the number of vested Units in the Participant's notional account, net of any Applicable Withholding Taxes, on the Settlement Date or DSU Termination Date, as applicable. For greater certainty, the conversion of the

Market Value into the applicable currency will be based on the exchange rate provided by the Bank of Canada on the Settlement Date.

- (i) **“Change of Control Event”** means:
  - (i) a reorganization, amalgamation, merger or other business combination (or a plan of arrangement in connection with any of the foregoing), other than solely involving the Company and any one or more of its Affiliates, with respect to which all or substantially all of the persons who were the beneficial owners of the Shares and other securities of the Company immediately prior to such reorganization, amalgamation, merger, business combination or plan of arrangement do not, following the completion of such reorganization, amalgamation, merger, business combination or plan of arrangement, beneficially own, directly or indirectly, more than fifty percent (50%) of the resulting voting shares (on a fully-diluted basis) of the Company or its successor;
  - (ii) the sale to a person other than an Affiliate of the Company of all or substantially all of the Company’s assets; or
  - (iii) a change in the composition of the Board, which occurs at a single meeting of the shareholders of the Company or upon the execution of a shareholders’ resolution, such that individuals who are members of the Board immediately prior to such meeting or resolution cease to constitute a majority of the Board, without the Board, as constituted immediately prior to such meeting or resolution, having approved of such change;
- (j) **“Company”** means Novadaq Technologies Inc. or any successor thereof;
- (k) **“Consultant”** means a person or company, other than an employee, senior officer or director of the Company, that: (i) is engaged to provide services to the Company or an Affiliate, other than services provided in relation to a distribution, (ii) provides the services under a written contract with the Company or an Affiliate, and (iii) spends or will spend a significant amount of time and attention on the affairs and business of the Company or an Affiliate;
- (l) **“Date of Grant”** means the date on which a particular Unit is granted by the Board as evidenced by the Grant Agreement pursuant to which the applicable Unit was granted;
- (m) **“Deferred Share Unit”** or **“DSU”** means a unit designated as a Deferred Share Unit representing the right to receive one Share or the Cash Equivalent in accordance with the terms set forth in the Plan;
- (n) **“Disability”** means the inability of a Participant to perform the duties associated with his or her position for 270 consecutive days as a result of his or her incapacity due to physical or mental illness;

- (o) **"DSU Participant"** means a director of the Company (who for greater certainty may also be an employee, if applicable) who has been designated by the Company for participation in the Plan and who has agreed to participate in the Plan and to whom Deferred Share Units have or will be granted thereunder;
- (p) **"DSU Payment Date"** means, with respect to a Deferred Share Unit granted to a DSU Participant, no later than December 31 of the Fiscal Year following the Fiscal Year in which the DSU Termination Date occurred;
- (q) **"DSU Settlement Notice"** means a notice, in the form contained in Schedule "F" attached hereto, by a DSU Participant to the Company electing the desired form of Settlement of Deferred Share Units;
- (r) **"DSU Termination Date"** of a DSU Participant means the day that the DSU Participant ceases to be a director and, if applicable, an employee of the Company for any reason including, without limiting the generality of the foregoing, as a result of retirement, death, voluntary or involuntary termination, Disability or resignation;
- (s) **"Elected Amount"** has the meaning ascribed thereto in Section 6.3(1);
- (t) **"Election Notice"** has the meaning ascribed thereto in Section 6.3(1);
- (u) **"Eligible Person"** means any director, officer, employee or Consultant of the Company or any of its Affiliates and any such person's personal holding company, as designated by the Board in a resolution;
- (v) **"Expire"** means, with respect to a Unit, the termination of such Unit, on the occurrence of which such Unit is void, incapable of settlement, and of no value whatsoever; and "Expires" and "Expired" have a similar meanings;
- (w) **"Fiscal Year"** means the fiscal year of the Company, which is the annual period commencing January 1 and ending the following December 31;
- (x) **"Grant Agreement"** means an agreement between the Company and a Participant under which a Unit is granted, substantially in the form attached hereto as Schedule "A" in reference to RSUs, and Schedule "D" in reference to DSUs, as each may be amended from time to time;
- (y) **"Insider"** has the meaning ascribed to "reporting insiders" in National Instrument 55-104 – *Insider Reporting Requirements and Exemptions*;
- (z) **"ITA"** means the *Income Tax Act* (Canada), and the regulations thereunder;
- (aa) **"Market Value"** at any date in respect of the Shares, means the volume weighted average trading price of all Shares traded on the NASDAQ Stock Market for the five (5) trading days immediately preceding such date (or, if such Shares are not listed and posted for trading on the NASDAQ Stock Market, on the TSX or such

other stock exchange on which such Shares are listed and posted for trading as may be selected for such purpose by the Board). In the event that such Shares are not listed and posted for trading on any stock exchange, the Market Value shall be the fair market value of such Shares as determined by the Board in its sole and absolute discretion;

- (bb) **“Non-Employee Director”** means any director of the Company who is not also acting as, or was acting as during the time of grant of any securities, the President, Chief Executive Officer, Chief Financial Officer and/or another senior officer or employee of the Company or Affiliate;
- (cc) **“Participant”** means a RSU Participant or a DSU Participant, as applicable;
- (dd) **“Performance Criteria”** shall mean criteria, if any, established by the Board which, without limitation, may include criteria based on the financial performance of the Company and/or an Affiliate;
- (ee) **“Plan”** means this Amended and Restated Long Term Incentive Plan, as amended from time to time;
- (ff) **“Restricted Share Unit”** or **“RSU”** means a unit granted or credited to a RSU Participant’s notional account pursuant to the terms of this Plan that, subject to the provisions hereof, entitles a RSU Participant to receive one Share or the Cash Equivalent in accordance with the terms set forth in the Plan;
- (gg) **“RSU Participant”** means an Eligible Person who has been designated by the Company for participation in the Plan and who has agreed to participate in the Plan and to whom a Restricted Share Unit has been granted or will be granted thereunder;
- (hh) **“RSU Settlement Notice”** means a notice, in the form contained in Schedule “B” attached hereto, by a RSU Participant to the Company electing to settle vested Restricted Share Units;
- (ii) **“RSU Termination Date”** means the date on which a RSU Participant ceases to be an Eligible Person as a result of a termination of employment with the Company or an Affiliate for any reason, including death, retirement, Disability or resignation. For the purposes of the Plan, a RSU Participant’s employment with the Company or an Affiliate shall be considered to have terminated effective on the last day of the RSU Participant’s actual and active employment with the Company or Affiliate, whether such day is selected by agreement with the individual, or unilaterally by the RSU Participant or the Company or Affiliate, and whether with or without advance notice to the RSU Participant. For the avoidance of doubt, no period of notice or pay in lieu of notice that is given or that ought to have been given under applicable law in respect of such termination of employment that follows or is in respect of a period after the RSU Participant’s last day of actual and active employment shall be considered as

extending the RSU Participant's period of employment for the purposes of determining his or her entitlement under the Plan;

- (jj) **"RSU Vesting Date"** means the date or dates determined in accordance with the terms of the Grant Agreement entered into in respect of such Restricted Share Units (as described in Section 4.4), on and after which a particular Restricted Share Unit may be settled, subject to amendment or acceleration from time to time in accordance with the terms hereof;
- (kk) **"Settlement Date"** has the meaning ascribed thereto in Section 5.1(1);
- (ll) **"Share"** means a common share in the capital of the Company, and includes any shares of the Company into which such common shares may be converted, reclassified, redesignated, subdivided, consolidated, exchanged or otherwise changed;
- (mm) **"Shareholders"** means holders of Shares;
- (nn) **"Stock Option Plan"** means the Company's third amended and restated stock option plan effective as of May 17, 2017;
- (oo) **"Substitution Event"** means (i) a Change of Control, or (ii) a merger, amalgamation, arrangement, business combination or other transaction pursuant to which the Shares of the Company are converted into, or exchanged for, other property, whether in the form of securities of another entity, cash or otherwise;
- (pp) **"Termination Notice"** has the meaning ascribed thereto in Section 6.4(1);
- (qq) **"TSX"** means the Toronto Stock Exchange; and
- (rr) **"Units"** means DSUs and RSUs, as applicable.

## **ARTICLE 2**

### **CONSTRUCTION AND INTERPRETATION**

#### **Section 2.1      Regulatory Requirement.**

Should any changes to this Plan be required by any securities commission or other governmental body of any jurisdiction of Canada to which this Plan has been submitted or by any stock exchange on which the Shares may from time to time be listed, such changes will be made to this Plan as are necessary to conform with such requests and, if such changes are approved by the Board, this Plan, as amended, will remain in full force and effect in its amended form as of and from that date.

#### **Section 2.2      Currency.**

All references in the Plan to currency refer to lawful currency of Canada.

### **Section 2.3      Applicable Laws.**

The Plan shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

### **Section 2.4      Validity.**

If any provision of the Plan or part hereof is determined to be void or unenforceable in whole or in part, such determination shall not affect the validity or enforcement of any other provision or part thereof.

### **Section 2.5      References.**

In the Plan, references to the masculine include the feminine; reference to the singular shall include the plural and vice versa, as the context shall require.

### **Section 2.6      Headings.**

Headings wherever used herein are for reference purposes only and do not limit or extend the meaning of the provisions herein contained.

## **ARTICLE 3 GENERAL PROVISIONS**

### **Section 3.1      Administration.**

- (1) The Board shall administer this Plan; however, notwithstanding the foregoing or any other provision contained herein, the Board shall have the right to delegate the administration and operation of this Plan, in whole or in part, to a committee of the Board and/or to any member thereof. For greater certainty, any such delegation by the Board may be revoked at any time at the Board's sole discretion. In the event of any such delegation by the Board, references made to the Board herein, shall, as applicable, include a committee of the Board and/or any member thereof. Nothing contained herein shall prevent the Board from adopting other or additional Share compensation arrangements or other compensation arrangements.
- (2) Subject to the terms and conditions set forth herein, the Board has the authority: (i) to grant Restricted Share Units to RSU Participants; (ii) to grant Deferred Share Units to DSU Participants; (iii) to determine the terms, including the limitations, restrictions, vesting period and conditions (including any Performance Criteria), if any, of such grants; (iv) to interpret this Plan and all agreements entered into hereunder; (v) to adopt, amend and rescind such administrative guidelines and other rules relating to this Plan as it may from time to time deem advisable; and (vi) to make all other determinations and to take all other actions in connection with the implementation and administration of this Plan as it may deem necessary or advisable. The Board's guidelines, rules, interpretations, and determinations shall be conclusive and binding upon the Company, its Affiliates, and all Participants and their heirs, executors, legal personal representatives and beneficiaries.

- (3) No member of the Board or any person acting pursuant to authority delegated by it hereunder shall be liable for any action or determination in connection with the Plan made or taken in good faith, and each member of the Board and each such person shall be entitled to indemnification by the Company with respect to any such action or determination.
- (4) The Board may adopt such rules or regulations and vary the terms of this Plan and any grant hereunder as it considers necessary to address tax or other requirements of any applicable non-Canadian jurisdiction.
- (5) The Plan shall not in any way fetter, limit, obligate, restrict or constrain the Board with regard to the allotment or issue of any Shares or any other securities in the capital of the Company other than as specifically provided for in the Plan.
- (6) Shares issued or delivered to RSU Participants pursuant to the settlement of Restricted Share Units or to DSU Participants pursuant to the settlement of Deferred Share Units shall be subject to restrictions on resale and transfer under applicable securities laws and the requirements of the TSX or other stock market on which any class of Shares are listed or quoted for trading, and any certificates representing such Shares shall bear, as required, a respective legend in respect thereof.

### **Section 3.2 Rules and Regulations.**

The Board is authorized, subject to the provisions of the Plan, to establish such rules and regulations as it deems necessary for the proper administration of the Plan, and to make determinations and take such other action in connection with or in relation to the Plan as it deems necessary or advisable. Each determination or action made or taken pursuant to the Plan, including interpretation of the Plan, shall be final and conclusive for all purposes and binding on all parties, absent manifest error.

### **Section 3.3 Amendment and Termination.**

- (1) The Board may, in its sole discretion, suspend or terminate the Plan at any time or from time to time amend, revise or discontinue the terms and conditions of the Plan or of any Unit granted under the Plan and any Grant Agreement relating thereto, subject to any required regulatory approval, provided that such suspension, termination, amendment, or revision will:
  - (a) not adversely alter or impair any Unit previously granted except as permitted by the terms of this Plan;
  - (b) be in compliance with applicable law and subject to any regulatory approvals including, where required, the approval of the TSX or any other applicable securities exchange; and
  - (c) be subject to Shareholder approval, where required by law, the requirements of the TSX, any other applicable securities exchange or this Plan.

- (2) If the Plan is terminated, the provisions of the Plan and any administrative guidelines and other rules and regulations adopted by the Board and in force with respect to outstanding Units will continue in effect as long as any such Unit or any rights pursuant thereto remain outstanding and, notwithstanding the termination of the Plan, the Board will remain able to make such interpretations and amendments to the Plan or the Units as they would have been entitled to make if the Plan was still in effect.
- (3) The Board shall have the power and authority to approve amendments relating to the Plan or to Units, without further approval of the Shareholders or Participants, to the extent such amendment:
- (a) is for the purpose of curing any ambiguity, error or omission in the Plan or to correct or supplement any provision of the Plan that is inconsistent with any provision of the Plan;
  - (b) is necessary to comply with applicable law or the requirements of the TSX or any other applicable securities exchange;
  - (c) is an amendment to the Plan respecting administration and eligibility for participation under the Plan;
  - (d) alters, extends or accelerates the terms of vesting applicable to any Units;
  - (e) changes the termination provisions of a Unit or the Plan which does not entail an extension beyond the original expiry date of a Unit;
  - (f) is an amendment to the Plan of a “housekeeping nature”; or
  - (g) does not require Shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of the TSX or any other applicable securities exchange), provided that in the case of any alteration, amendment or variance referred to in this Section 3.3, the alteration, amendment or variance does not:
    - (i) amend the number of Shares issuable under the Plan;
    - (ii) cancel and reissue any Units;
    - (iii) add any form of financial assistance by the Company for the exercise of a Unit;
    - (iv) result in a material or unreasonable dilution in the number of outstanding Shares or any material benefit to a Participant;
    - (v) extend the time for which a Unit Expires beyond its original expiry date;
    - (vi) amend this Section 3.3, Section 3.10(1)(c), or Section 9.1; or

- (vii) change the class of Eligible Persons under the Plan, which would have the potential of broadening or increasing participation by Insiders of the Company;

and further provided that:

- (viii) any Units granted subject to the acceptance and approval of such amendments by the TSX shall be subject to such approval and acceptance being given and no such Units may be exercised unless and until such approval and acceptance are given.
- (4) Notwithstanding anything contained herein to the contrary, the Board shall be required to obtain Shareholder Approval in order to amend: (i) Section 3.10(1)(c) of this Plan, (ii) Section 3.3(3)(g) of this Plan, or (iii) this Section 3.3(4).
  - (5) No such amendment to the Plan shall cause the Plan in respect of Restricted Share Units to cease to be a plan described in paragraph (k) of the definition of “salary deferral arrangement” in subsection 248(1) of the ITA or any successor to such provision.
  - (6) No such amendment to the Plan shall cause the Plan in respect of Deferred Share Units to cease to be a plan described in regulation 6801(d) of the ITA or any successor to such provision.

#### **Section 3.4      Applicable Tax Withholdings and Deductions.**

- (1) Notwithstanding any other provision contained herein, and together with Section 5.4 and Section 6.10, the Company or the relevant Affiliate, as applicable, shall be entitled to withhold from any amount payable to a Participant, either under this Plan or otherwise, such amounts as may be necessary so as to ensure that the Company or the relevant Affiliate is in compliance with the applicable provisions of the ITA or any other federal, provincial, state or local law relating to the withholding of tax or other required deductions relating to the settlement of such Units (the “**Applicable Withholding Taxes**”).
- (2) It is the responsibility of the Participant to complete and file any tax returns which may be required within the periods specified in applicable laws as a result of the Participant’s participation in the Plan. The Company shall not be held responsible for any tax consequences to a Participant as a result of the Participant’s participation in the Plan and the Participant shall indemnify and save harmless the Company from and against any and all loss, liability, damage, penalty or expense (including legal expense), which may be asserted against the Company or which the Company may suffer or incur arising out of, resulting from, or relating in any manner whatsoever to any tax liability in connection therewith.

### **Section 3.5 No Interest.**

No interest or other amounts shall accrue to the Participant in respect of any amount payable by the Company to the Participant under this Plan or any Unit.

### **Section 3.6 Costs.**

The Company will be responsible for all costs relating to the administration of the Plan.

### **Section 3.7 Participation in this Plan.**

- (1) Nothing contained in the Plan nor in any Unit granted hereunder shall be deemed to give any Participant any interest or title in or to any Shares or any rights as a Shareholder or any other legal or equitable right against the Company, or any of its Affiliates whatsoever, including without limitation, the right to vote as a Shareholder and/or the right to participate in any new issue of Shares to existing holders of Shares, other than those rights relating to Shares that have been issued by the Company upon the settlement of a Unit pursuant to the terms of this Plan.
- (2) Units shall be credited to an unfunded notional bookkeeping account established and maintained by the Company in the name of each Participant. Notwithstanding any other provision of the Plan to the contrary, a Unit shall not be considered or construed as an actual investment in Shares. Participants shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Company or any Affiliate. No assets of the Company or any Affiliate shall be held in any way as collateral security for the fulfillment of the obligations of the Company or any Affiliate under this Plan. Any and all of the Company's or any Affiliate's assets shall be, and remain, the general unrestricted assets of the Company or Affiliate.
- (3) The Company's or any of its Affiliate's obligation under this Plan shall be merely that of an unfunded and unsecured promise of the Company or such Affiliate to pay money in the future, and the rights of Participants shall be no greater than those of unsecured general creditors.
- (4) The Company makes no representation or warranty as to the future Market Value of the Shares or with respect to any income tax matters affecting the Participant resulting from the grant or settlement of a Unit or transactions in the Shares. With respect to any fluctuations in the Market Value of Shares, neither the Company, nor any of its directors, officers, employees, Shareholders or agents, shall be liable for anything done or omitted to be done by such person or any other person with respect to the price, time, quantity or other conditions and circumstances of the issuance of Shares hereunder, or in any other manner related to the Plan. For greater certainty, no amount will be paid to, or in respect of, a Participant under the Plan or pursuant to any other arrangement, and no additional Units will be granted to such Participant, to compensate for a downward fluctuation in the price of the Shares, nor will any other form of benefit be conferred upon, or in respect of, a Participant for such purpose.
- (5) The Plan does not provide for any guarantee in respect of any loss or profit that may result from fluctuations in the Market Value of Shares.

### **Section 3.8 Right to Issue Other Shares.**

The Company shall not by virtue of this Plan be in any way restricted from declaring and paying stock dividends, issuing further Shares, repurchasing Shares, or varying or amending its share capital or corporate structure.

### **Section 3.9 Regulatory Approval.**

The grant of Units and the issuance of Shares pursuant to this Plan are subject to compliance with all applicable laws, rules and regulations of all governmental and regulatory authorities and to the requirements of the TSX. The Participant agrees to: (i) comply with all such laws, rules regulations and requirements; (ii) to furnish to the Company any information, report and/or undertakings required to comply with all such laws, rules, regulations and requirements; (iii) to fully cooperate with the Company in complying with such laws, rules regulations and requirements; and (iv) to fully cooperate with the Company in complying with the provisions of the ITA and/or other tax laws, as applicable.

### **Section 3.10 Grant of Units, Shares Reserved and Participation Limits.**

- (1) Subject to the provisions of this Plan, the Board may grant Units to Participants upon the terms, conditions and limitations set forth herein, in any Grant Agreement, and such other terms, conditions and limitations permitted by and not inconsistent with this Plan as the Board may determine, provided that:
  - (a) The maximum number of Shares which may be reserved for issuance under this Plan in respect of grants of Restricted Share Units to RSU Participants and grants of Deferred Share Units to DSU Participants and pursuant to any other security based compensation arrangement of the Company (including under the Stock Option Plan) shall not exceed 10% of the issued and outstanding Shares from time to time on a non-diluted basis;
  - (b) The number of Shares subject to any grants of Restricted Share Units or Deferred Share Units (or portions thereof) that: (i) have vested and been settled; or (ii) have Expired or been forfeited, surrendered, cancelled or otherwise terminated prior to the delivery of the Shares pursuant to a grant of Restricted Share Units or Deferred Share Units shall, in each case, automatically become available to be made and subject to new grants under this Plan. In addition, the number of Shares subject to grants of Restricted Share Units or Deferred Share Units (or portions thereof) that the Company settles in cash in lieu of settlement in Shares shall automatically become available to be made the subject of new grants under this Plan; and
  - (c) Unless the Company has received requisite Shareholder approval, under no circumstances shall this Plan, together with all of the Company's previously established or proposed compensation or incentive plans or mechanisms involving the issuance or potential issuance of Shares, including the Stock Option Plan, result, at any time, in:

- (i) the aggregate number of Shares issuable to Insiders (as a group) at any point in time exceeding 10% of the Company's issued and outstanding Shares on a non-diluted basis;
- (ii) the issuance to Insiders (as a group), within a one-year period, of an aggregate number of Shares exceeding 10% of the Company's issued and outstanding Shares on a non-diluted basis; or
- (iii) the grant to (a) Non-Employee Directors, as a group, of an aggregate number of Shares exceeding 1% of the Company's issued and outstanding Shares on a non-diluted basis, or (b) any individual Non-Employee Director of more than \$150,000 worth of Shares annually.

For greater certainty, any one-time initial equity grant upon a director joining the Board are excluded from the limitation set forth in Section 3.10(1)(c)(iii)(b).

- (2) In the event that a Participant receives Shares from the Company in satisfaction of a grant of Restricted Share Units or Deferred Share Units during a Company-imposed black-out period, the Participant shall not be entitled to sell or otherwise dispose of such Shares until such black-out period has expired. In the event that a Participant's Units are set to Expire during a black-out period, such expiry date shall be automatically extended for ten (10) Business Days after the expiry of the black-out period following the date the relevant black-out period is lifted, terminated or removed, in accordance with Sections 3.3(4) and 3.3(5).

## ARTICLE 4 RESTRICTED SHARE UNITS

### **Section 4.1 Grant of Restricted Share Units.**

- (1) Subject to the provisions of this Plan, the Board may grant Restricted Share Units to any Eligible Person upon the terms, conditions and limitations set forth herein and such other terms, conditions and limitations permitted by and not inconsistent with this Plan as the Board may determine.
- (2) The grant of a Restricted Share Unit shall be evidenced by a Grant Agreement, signed on behalf of the Company.
- (3) The Company shall maintain a notional account for each RSU Participant, in which shall be recorded the number of vested and unvested Restricted Share Units granted or credited to such RSU Participant.
- (4) The grant of a Restricted Share Unit to a RSU Participant, or the settlement of a Restricted Share Unit, under the Plan shall neither entitle such RSU Participant to receive nor preclude such RSU Participant from receiving subsequently granted Restricted Share Units.
- (5) Each Grant Agreement shall describe the Performance Criteria, if any, established by the Board that must be achieved for Units to vest to the RSU Participant.

## **Section 4.2      Equivalence.**

One (1) Restricted Share Unit is equivalent to one (1) Share. Fractional Restricted Share Units are permitted under the Plan.

## **Section 4.3      Calculation.**

The number of Restricted Share Units (including fractional Restricted Share Units) granted at any particular time pursuant to this Plan will be calculated by dividing (i) the dollar amount of such grant by (ii) the Market Value of a Share on the Date of Grant.

## **Section 4.4      Vesting.**

Except as otherwise provided in a RSU Participant's Grant Agreement or any other provision of this Plan, and subject to the Board's ability to change the RSU Vesting Date of any Restricted Share Unit pursuant to Article 8:

- (1) 1/3 of the Restricted Share Units granted pursuant to Section 4.1 shall vest on the first (1<sup>st</sup>) anniversary of the Date of Grant;
- (2) 1/3 of the Restricted Share Units granted pursuant to Section 4.1 shall vest on the second (2<sup>nd</sup>) anniversary of the Date of Grant; and
- (3) 1/3 of the Restricted Share Units granted pursuant to Section 4.1 shall vest on the third (3<sup>rd</sup>) anniversary of the Date of Grant.

## **Section 4.5      Adjustments.**

Subject to any required approval by the TSX or regulatory authority, in the case of any merger, amalgamation, arrangement, rights offering, subdivision, consolidation, or reclassification of the Shares or other relevant change in the capitalization of the Company, or stock dividend or distribution (excluding dividends or distributions which may be paid in cash or in Shares at the option of the Shareholder), or exchange of the Shares for other securities or property, the Company shall make appropriate adjustments in the Shares issuable or amounts payable, as the case may be, as determined as appropriate by the Board, to preclude a dilution or enlargement of the benefits hereunder, and any such adjustment (or non-adjustment) by the Company shall be conclusive, final and binding upon the RSU Participants. However, no amount will be paid to, or in respect of, the RSU Participants under the Plan or pursuant to any other arrangement, and no additional Restricted Share Units will be granted to such RSU Participant to compensation for a downward fluctuation in the Market Value of the Shares, nor will any other form of benefit be conferred upon, or in respect of, a RSU Participant for such purpose.

# **ARTICLE 5 SETTLEMENT & EXPIRY**

## **Settlement of Restricted Share Units.**

- (1) Except as otherwise provided in a RSU Participant's Grant Agreement or any other provision of this Plan:

- (a) All of the vested Restricted Share Units covered by a particular grant may be settled on the first Business Day following their RSU Vesting Date (the “**Settlement Date**”), but in no event later than December 31 of the third calendar year following the year in which the services giving rise to the award were rendered; and
  - (b) Following the RSU Vesting Date in respect of an award of Restricted Share Units granted to a RSU Participant, a RSU Participant shall become entitled to deliver to the Company a RSU Settlement Notice in respect of any or all vested Units which it desires to settle. The RSU Participant will, when requested by the Company, execute and deliver all such documents relating to the settlement of the vested Restricted Share Units which the Company deems necessary or desirable.
- (2) Following the receipt by the Company of a RSU Settlement Notice, the Company shall elect to settle the Restricted Share Units through delivery of:
- (a) in the case of settlement for their Cash Equivalent, a cheque to the RSU Participant representing the Cash Equivalent;
  - (b) in the case of settlement for Shares, a share certificate to the RSU Participant representing Shares issued from treasury; or
  - (c) in the case of settlement for a combination of Shares and the Cash Equivalent, a combination of (a) and (b) above.

Subject to the foregoing, the decision as to mode of payment shall be made by the Board in its sole discretion, and a payment of the Cash Equivalent and/or Shares, as the case may be, to any one RSU Participant shall not create any obligation for the Board to make a similar payment to any other RSU Participant.

## **Section 5.2      Determination of Amounts.**

- (1) **Cash Equivalent of Restricted Share Units.** For purposes of determining the Cash Equivalent of Restricted Share Units to be made pursuant to Section 5.1(2)(a) or Section 5.1(2)(c), such calculation will be made on the Settlement Date based on the Market Value on the Settlement Date multiplied by the number of vested Restricted Share Units in the RSU Participant’s Restricted Share Unit notional account which are being settled on the Settlement Date, net of any Applicable Withholding Taxes.
- (2) **Payment in Shares; Issuance of Shares from Treasury.** For the purposes of determining the number of Shares from treasury to be issued and delivered to a RSU Participant upon settlement of Restricted Share Units pursuant to Section 5.1(2)(b) or Section 5.1(2)(c), such calculation will be made on the Settlement Date, or if the Settlement Date is not a Business Day, on the next such Business Day, based on the whole number of Shares equal to the whole number of vested Restricted Share Units then recorded in the RSU Participant’s Restricted Share Unit notional account that are being settled on the Settlement Date, net of any Applicable Withholding Taxes. Shares issued from treasury

will be issued in consideration for the past services of the RSU Participant to the Company and the entitlement of the RSU Participant under this Plan shall be satisfied in full by such issuance of Shares. As set out in Section 5.3, the Company will, if applicable, also make a cash payment, net of any Applicable Withholding Taxes, to the RSU Participant with respect to the value of any fractional Restricted Share Units standing to the RSU Participant's credit after the maximum number of whole Shares have been issued by the Company as described above.

### **Section 5.3 Cash Payment.**

If applicable, the Company shall also make a cash payment, net of any Applicable Withholding Taxes, to the RSU Participant with respect to the value of fractional Restricted Share Units standing to the RSU Participant's credit after the maximum number of whole Shares have been issued by the Company, calculated by multiplying (i) the number of such fractional Restricted Share Units by (ii) the Market Value of such fractional Restricted Share Units on the Settlement Date.

### **Section 5.4 Applicable Withholding Taxes.**

- (1) For greater certainty, unless not required under the ITA or any other applicable law, no cash payment will be made nor will Shares be issued until:
  - (a) An amount sufficient to cover the Applicable Withholding Taxes payable on the settlement of such Restricted Share Units has been received by the Company (or withheld by the Company from the Cash Equivalent and/or cash payment noted above if applicable); or
  - (b) The RSU Participant undertakes to arrange for such number of Shares to be sold as is necessary to raise an amount equal to the Applicable Withholding Taxes, and to cause the proceeds from the sale of such Shares to be delivered to the Company.

### **Section 5.5 Cancellation of Restricted Share Units.**

Upon payment in full of the value of the Restricted Share Units, the Restricted Share Units shall be cancelled and no further payments shall be made from the Plan in relation to such Restricted Share Units.

### **Section 5.6 Termination.**

Unless otherwise provided in the RSU Participant's Grant Agreement and regardless of any adverse or potentially adverse tax or other consequences, if a RSU Participant ceases to be an Eligible Person for any reason, including, without limitation, as a result of his or her resignation, voluntary or involuntary termination, retirement, Disability, or death, any unvested Restricted Share Units held by such RSU Participant shall Expire on the RSU Termination Date.

## **ARTICLE 6**

### **DEFERRED SHARE UNITS**

#### **Section 6.1 Grant of Deferred Share Units.**

- (1) Subject to the provisions of this Plan, the Board may grant Deferred Share Units to a DSU Participant upon the terms, conditions and limitations set forth herein and such other terms, conditions and limitations permitted by and not inconsistent with this Plan as the Board may determine.
- (2) The grant of a Deferred Share Unit shall be evidenced by a Grant Agreement, signed on behalf of the Company.
- (3) The Company shall maintain a notional account for each DSU Participant, in which shall be recorded the number of Deferred Share Units granted or credited to such Participant.
- (4) The grant of a Deferred Share Unit to a DSU Participant, or the settlement of a Deferred Share Unit, under the Plan shall neither entitle such DSU Participant to receive nor preclude such DSU Participant from receiving subsequently granted Deferred Share Units.

#### **Section 6.2 Equivalence.**

One (1) Deferred Share Unit is equivalent to one (1) Share. Fractional Deferred Share Units are permitted under the Plan.

#### **Section 6.3 Election Notice; Elected Amount.**

- (1) Subject to Board approval, a DSU Participant may elect by filing an election notice in the form of Schedule "C" attached hereto (the "**Election Notice**"), once each Fiscal Year, to be paid, subject to any minimum amount that may be required by the Board, up to one hundred percent (100%) of his or her Annual Board Retainer in the form of Deferred Share Units (the "**Elected Amount**"), with the balance of such Annual Board Retainer being paid in cash in accordance with the Company's regular practices of paying such cash compensation. In the case of an existing DSU Participant, the election must be completed, signed and delivered to the Company by the end of the Fiscal Year preceding the Fiscal Year to which such election is to apply. In the case of a new DSU Participant, the election must be completed, signed and delivered to the Company as soon as possible, and, in any event, no later than 30 days after the director's appointment, with such election to be effective on the first day of the fiscal quarter of the Company following the date of the Company's receipt of the election until the final day of such Fiscal Year. For the first year of the Plan, DSU Participants must make such election as soon as possible, and, in any event, no later than 30 days, after adoption of the Plan and the election shall be effective on the first day of the fiscal quarter of the Company following the date of the Company's receipt of the election until the final day of such Fiscal Year. If no election is made in respect of a particular Fiscal Year, the new or existing DSU Participant will be paid in cash in accordance with the Company's regular practices of paying such cash compensation.

- (2) In the absence of a designation to the contrary (including delivery of an Election Notice by a DSU Participant requesting that a greater or lesser percentage of his or her Annual Board Retainer be payable in the form of Deferred Share Units relative to the percentage previously elected by such DSU Participant), the DSU Participant's Election Notice shall remain in effect unless otherwise terminated.

#### **Section 6.4 Termination Right.**

- (1) Each DSU Participant is entitled to terminate his or her participation in the Plan by filing with the Chief Financial Officer of the Company, or such other officer of the Company designated by the Board, a notice electing to terminate the receipt of additional Deferred Share Units in the form of Schedule "E" attached hereto ("**Termination Notice**"). Such Termination Notice shall be effective as of the date received by the Company.
- (2) Thereafter, any portion of such DSU Participant's Annual Board Retainer payable, and subject to comply with Section 6.3, all subsequent Annual Board Retainers shall be paid in cash in accordance with the Company's regular practices of paying such cash compensation.
- (3) For greater certainty, to the extent a DSU Participant terminates his or her participation in the Plan, he or she shall not be entitled to become a DSU Participant again until the Fiscal Year following the Fiscal Year in which the Termination Notice becomes effective.

#### **Section 6.5 Calculation.**

- (1) The number of Deferred Share Units (including fractional Deferred Share Units) granted at any particular time pursuant to this Plan will be calculated by:
  - (a) in the case of an Elected Amount, by dividing (i) the dollar amount of the Elected Amount allocated to the DSU Participant by (ii) the Market Value of a Share on the applicable Award Date; or
  - (b) in the case of a grant of Deferred Share Units pursuant to Section 6.1, by dividing (i) the dollar amount of such grant by (ii) the Market Value of a Share on the Date of Grant.

#### **Section 6.6 Vesting.**

- (1) All Deferred Share Units recorded in a DSU Participant's Deferred Share Unit notional account shall vest on the DSU Termination Date, unless otherwise determined by the Board at its sole discretion and in compliance with Section 3.3(5), subject to a determination of the Board made in accordance with Article 7 and Article 8.
- (2) DSU Participants will not have any right to receive any benefit under the Plan in respect of a Deferred Share Unit until the DSU Termination Date.

## **Section 6.7 Settlement in respect of Deferred Share Units.**

In respect of an award of Deferred Share Units granted to a DSU Participant, settlement shall be as soon as practicable following the DSU Termination Date and no later than the DSU Payment Date:

- (1) Subject to Section 6.7(2), the DSU Participant (or where the DSU Participant has died, a dependant or relation of the DSU Participant or the legal representative of the DSU Participant) will deliver to the Company a DSU Settlement Notice, in the DSU Participant's sole discretion, to elect to settle all Deferred Share Units in such DSU Participant's notional account for their Cash Equivalent (determined in accordance with Section 6.8(1)), Shares (determined in accordance with Section 6.8(2)) or a combination thereof.
- (2) If such DSU Settlement Notice is not received by the Company within 30 days prior to the DSU Payment Date, settlement shall take the form of the Cash Equivalent determined in accordance with Section 6.8(1), among other provisions of this Plan.
- (3) Settlement of Deferred Share Units shall take place on the DSU Payment Date and in the form set out in the DSU Settlement Notice through:
  - (a) in the case of settlement for their Cash Equivalent, a cheque to the Participant, a dependant or relation of the Participant or the Participant's duly authorized legal representative, as the case may be, representing the Cash Equivalent;
  - (b) in the case of settlement for Shares, a share certificate to the Participant, a dependant or relation of the Participant or the Participant's duly authorized legal representative, as the case may be, representing Shares issued from treasury; or
  - (c) in the case of settlement for a combination of Shares and the Cash Equivalent, a combination of (a) and (b) above.

## **Section 6.8 Determination of Amounts.**

- (1) **Cash Equivalent of Deferred Share Units.** For purposes of determining the Cash Equivalent of Deferred Share Units to be made pursuant to Section 6.7(3)(a) or Section 6.7(3)(c), such calculation will be made on the Market Value on the DSU Termination Date multiplied by the number of vested Deferred Share Units in the Participant's Deferred Share Unit notional account, net of any Applicable Withholding Taxes, as of the DSU Termination Date.
- (2) **Payment in Shares; Issuance of Shares from Treasury.** For the purposes of determining the number of Shares from treasury to be issued and delivered to a DSU Participant upon settlement of Deferred Share Units pursuant to Section 6.7(3)(b) or Section 6.7(3)(c), such calculation will be made on the DSU Termination Date, or if the DSU Termination Date is not a Business Day, on the next such Business Day, based on the whole number of Shares equal to the whole number of vested Deferred Share Units then recorded in the Participant's Deferred Share Unit notional account that are being settled on the DSU Termination Date, net of any Applicable Withholding Taxes. Shares issued

from treasury will be issued in consideration for the past services of the DSU Participant to the Company and the entitlement of the DSU Participant under this Plan shall be satisfied in full by such issuance of Shares. As set out in Section 6.9, the Company will, if applicable, also make a cash payment, net of any Applicable Withholding Taxes, to the Participant with respect to the value of any fractional Deferred Share Units standing to the Participant's credit after the maximum number of whole Shares have been issued by the Company as described above.

#### **Section 6.9      Cash Payment.**

If applicable, the Company shall also make a cash payment, net of any Applicable Withholding Taxes, to the DSU Participant with respect to the value of fractional Deferred Share Units standing to the DSU Participant's credit after the maximum number of whole Shares have been issued by the Company, calculated by multiplying (i) the number of such fractional Deferred Share Units by (ii) the Market Value of such fractional Deferred Share Units on the applicable date.

#### **Section 6.10      Applicable Withholding Taxes.**

For greater certainty, unless not required under the ITA or any other applicable law, no cash payment will be made nor will Shares be issued until:

- (a) An amount sufficient to cover the Applicable Withholding Taxes payable on the settlement of such Deferred Share Units has been received by the Company (or withheld by the Company from the Cash Equivalent and/or cash payment noted above if applicable); or
- (b) The DSU Participant undertakes to arrange for such number of Shares to be sold as is necessary to raise an amount equal to Applicable Withholding Taxes, and to cause the proceeds from the sale of such Shares to be delivered to the Company.

#### **Section 6.11      Cancellation of Deferred Share Units.**

Upon payment in full of the value of the Deferred Share Units, the Deferred Share Units shall be cancelled and no further payments shall be made from the Plan in relation to such Deferred Share Units.

#### **Section 6.12      Adjustments.**

Subject to any required approval by the TSX or regulatory authority, in the case of any merger, amalgamation, arrangement, rights offering, subdivision, consolidation, or reclassification of the Shares or other relevant change in the capitalization of the Company, or stock dividend or distribution (excluding dividends or distributions which may be paid in cash or in Shares at the option of the Shareholder), or exchange of the Shares for other securities or property, the Company shall make appropriate adjustments in the Shares issuable or amounts payable, as the case may be, as determined as appropriate by the Board, to preclude a dilution or enlargement of the benefits hereunder, and any such adjustment (or non-adjustment) by the Company shall be conclusive, final and binding upon the DSU Participants. However, no amount will be paid to, or in respect of, the DSU Participants under the Plan or pursuant to any

other arrangement, and no additional Deferred Share Units will be granted to such Participant to compensation for a downward fluctuation in the price of the Shares, nor will any other form of benefit be conferred upon, or in respect of, a DSU Participant for such purpose.

## **ARTICLE 7**

### **ASSUMPTION OR SUBSTITUTION OF UNITS**

#### **Section 7.1      Substitution**

- (1) In the event of a Substitution Event, any surviving or acquiring company must, unless Article 8 applies:
  - (a) Assume any Unit outstanding under the Plan on substantially the same economic terms and conditions as the Plan; or
  - (b) Substitute or replace restricted share units and deferred share units, as applicable (including an award to acquire the same consideration paid to the securityholders of the Company in the transaction effecting the Substitution Event) for those Restricted Share Units and Deferred Share Units outstanding under the Plan on substantially the same economic terms and conditions as the Plan.
- (2) In the event any surviving or acquiring company neglects or refuses (as determined by the Board, acting reasonably) to assume any Units or to substitute or replace similar restricted share units and deferred share units, as applicable, for those outstanding Restricted Share Units and Deferred Share Units under the Plan in connection with a Substitution Event, then with respect to any Units held by Participants, the vesting of such Units will automatically and without further action by the Board or the Company be immediately accelerated so that such Units will be fully vested.
- (3) Notwithstanding any other provision of this Plan, in the event of a potential Substitution Event, the Board may, in its discretion: (i) terminate, conditionally or otherwise and on such terms as it sees fit, the Units not settled following successful completion of such Substitution Event; and (ii) accelerate, conditionally or otherwise and on such terms as it sees fit, the vesting of Units or otherwise modify the terms of the Units to assist the Participants to obtain the advantage of holding Shares during the Substitution Event. If the Substitution Event referred to in this Article 7 is not completed during the time specified therein (as the same may be extended), the Units which vested pursuant to this Article 7 will be reinstated as unvested Units and the original terms applicable to such Units will apply. If any of the Units that vested pursuant to this Article 7 were settled, the applicable Shares or the Cash Equivalent must be returned to the Company and any Shares shall be cancelled. The determination of the Board in respect of any such Substitution Event will for the purposes of this Plan be final, conclusive and binding.

## ARTICLE 8 TAKE-OVER BIDS

### Section 8.1      Take-over Bids

- (1) In the event of a “potential change of control following a take-over bid” (as defined herein), the Board may, in its discretion, conditionally or otherwise and on such terms as it sees fit, accelerate the vesting of all of a Participant’s unvested Units to a date prior to the expiry date of such take-over bid or offer, such that all of a Participant’s Units will immediately vest at such time and the RSU Vesting Date or the DSU Termination Date, as applicable, in connection with such Units will be adjusted accordingly. Subject to Section 3.3(5). Subject to Section 3.3(5), in such event, all Units so vested may be settled conditionally or otherwise, from such date until their respective expiry date so as to permit the Participant to tender the Shares received upon such settlement pursuant to the take-over bid or offer. For purposes of this Article 8, a “**potential change of control following a take-over bid**” will be deemed to occur upon a formal take-over bid or tender offer for Shares being made as a result of which the offeror and its Affiliates or Associates, and each company, trust, partnership or other entity under common control with any of them would, if successful, beneficially own, directly or indirectly, fifty percent (50%) or more of the Shares then outstanding.
- (2) Notwithstanding any other provisions of this Plan, in the event of a potential change of control following a take-over bid, the Board will have the power, if determined appropriate (i) to terminate, conditionally or otherwise and on such terms as it sees fit, the Units not settled following successful completion of such event, and/or (ii) to modify the terms of the Units, conditionally or otherwise and on such terms as it sees fit, in order to assist the Participants to tender their securities into the take-over bid. For greater certainty, in the event that the acquiring entity acquires one hundred percent (100%) of the outstanding Shares following the take-over bid, the Board will have the power, if determined appropriate, to terminate the Units not settled upon the expiry of the time period for tendering Shares to the acquiring entity for purchase.
- (3) If the take-over bid referred to in this Article 8 is not completed within the time specified therein (as the same may be extended), the Units that vested pursuant to this Article 8 (if any) will be reinstated as unvested Units and the original terms applicable to such Units will apply. If any of the Units that vested pursuant to this Article 8 (if any) were settled the applicable Shares or the Cash Equivalent must be returned to the Company, and any Shares shall be cancelled. The determination of the Board with respect to any such event will for the purposes of this Plan be final, conclusive and binding.

## ARTICLE 9 ASSIGNMENT

### Section 9.1      Successors and Assigns.

In no event may the rights or interests of a Participant under the Plan be assigned, encumbered, pledged, transferred or alienated in any way, except to the extent that certain

rights may pass to a beneficiary or legal representative upon death of a Participant, by will or by the laws of succession and distribution.

#### **Section 9.2 Rights and Obligations.**

Rights and obligations under the Plan may be assigned by the Company to a successor in the business of the Company.

### **ARTICLE 10 GENERAL PROVISIONS**

#### **Section 10.1 Non-Exclusivity.**

Nothing contained herein will prevent the Board from adopting other additional compensation arrangements for the benefit of Eligible Persons, subject to any required regulatory or Shareholder approval.

#### **Section 10.2 No Right to Continued Employment or Consultancy.**

Nothing contained herein shall (i) be construed as conferring upon any Participant the right to continued employment or consultancy, (ii) affect in any way the right of the Company or Shareholders to terminate such employment or consultancy, or (iii) affect in any way the rights of any party contained in any agreement governing a Participant's service as an employee or consultant or other agreement governing the Participant's services to the Company.

#### **Section 10.3 No Right to Continued Board Membership.**

Nothing contained herein shall (i) be construed as conferring upon any Participant the right to continue as a member of the Board, (ii) affect in any way the right of the Company or Shareholders to terminate such membership, or (iii) affect in any way the rights of any party contained in any agreement governing a Participant's service as a member of the Board or other agreement governing the Participant's non-employee services to the Company.

#### **Section 10.4 Reorganization of the Company.**

The existence of any Units shall not affect in any way the right or power of the Company or its Shareholders to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, or any amalgamation, combination, merger or consolidation involving the Company or to create or issue any bonds, debentures, Shares or other securities of the Company or the rights and conditions attaching thereto or to affect the dissolution or liquidation of the Company or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar nature or otherwise.

#### **Section 10.5 Notice**

Any notice required to be given by this Plan shall be in writing and shall be given by registered mail, postage prepaid, or delivered by courier or by facsimile transmission addressed, if to the Company, to the head office of the Company, Attention: Chief Financial

Officer; or, if to a Participant, to such Participant at his or her address as it appears on the books of the Company or in the event of the address of any such Participant not so appearing, then to the last known address of such Participant; or, if to any other person, to the last known address of such person.

#### **Section 10.6 Compliance with Legislation**

The administration of the Plan shall be subject to and performed in conformity with all applicable laws, regulations, orders of governmental or regulatory authorities and the requirements of any stock exchange on which the Shares are listed. Each Participant shall comply with all such laws, regulations, rules, orders and requirements, and shall furnish the Company with any and all information and undertakings, as may be required to ensure compliance therewith.

**CONFIRMED as approved by the Board effective May 17, 2017.**

**ADDENDUM A TO NOVADAQ AMENDED AND RESTATED LONG TERM  
INCENTIVE PLAN**

**U.S. TAXPAYERS**

The terms and conditions of this addendum (this “**Addendum**”) shall apply to Units granted to Participants subject to taxation in the United States (“**US Participants**”). The terms and conditions provided in this Addendum shall supersede the terms of the Plan in the event of any inconsistency.

1. Definitions.

All capitalized terms used in this Addendum and not otherwise defined shall have the meanings set forth in the Plan; provided, however, that if a term is defined both in the Plan and in this Addendum, the definition in this Addendum shall control.

- a. “**Change of Control Event**” shall have the meaning set forth in the Plan, except that no event shall constitute a “**Change of Control Event**” unless it satisfies the requirements of U.S. Treasury Regulation Section 1.409A-3(i)(5)(v), (vi) or (vii).
- b. “**Code**” means the U.S. Internal Revenue Code of 1986, as amended.
- c. “**DSU Payment Date**” means, with respect to a Deferred Share Unit granted to a US Participant, a date selected by the Company that is within 70 days after the DSU Termination Date.
- d. “**DSU Termination Date**” means the date on which a DSU Participant incurs a Separation From Service, regardless of the reason for such Separation From Service.
- e. “**Eligible Person**” means any director, officer, employee or Consultant of the Company or any Subsidiary, as designated by the Board in a resolution.
- f. An “**RSU Settlement Notice**” shall not apply to US Participants.
- g. “**RSU Termination Date**” means the date on which a US Participant incurs a Separation From Service, regardless of the reason for such separation from service.
- h. “**Separation From Service**” means a “**separation from service**” (within the meaning of Code Section 409A) from the Company and its Subsidiaries.
- i. “**Subsidiary**” means, with respect to the Company, any corporation, partnership, association or other business entity of which fifty percent (50%) or more of the total voting power or value of the equity securities is at the time owned or controlled, directly or indirectly, by the Company or one or more of the Subsidiaries of the Company or a combination thereof.

## 2. Administration

- a. Notwithstanding anything contained in the Plan to the contrary, including without limitation, Article 3 of the Plan, neither the Board, the Company nor any Subsidiary may exercise any discretionary authority to accelerate the timing of the settlement of any Units that are treated as “**non-qualified deferred compensation**” under Code Section 409A.
- b. In the event that a US Participant’s Units are set to Expire during a black-out period, such expiry date shall be automatically extended for ten (10) Business Days after the expiry of the black-out period following the date the relevant black-out period is lifted, terminated or removed, in accordance with Sections 3.3(4) and 3.3(5) of the Plan; provided, however, that in no event shall such extension result in the settlement of the Units beyond the latest date permitted by Code Section 409A.

## 3. Restricted Share Units

- a. Unless a different settlement date is specified in a Grant Agreement, any vested Restricted Share Units shall be settled as set forth in Section 5.1(2) of the Plan within 70 days after the date on which such Restricted Share Unit became vested (the specific date of settlement shall be determined by the Company). The date on which a Restricted Share Unit is settled is referred to as the “**Settlement Date.**”

## 4. Deferred Share Units

- a. Section 6.3 of the Plan shall not apply to US Participants. An Election Notice for a US Participant must be provided to the Company prior to the last day of the calendar year immediately preceding the calendar year to which such Election Notice relates. An Election Notice shall be irrevocable when made. Once an Election Notice is provided, a US Participant may not increase or decrease the Elected Amount, nor may a US Participant cancel such Election Notice, and such Election Notice shall remain in effect unless otherwise terminated or revised. Any changes to an effective Election Notice shall not become effective until the first day of the calendar year immediately following the calendar year in which such Election Notice is provided to the Company.
- b. In the first year in which a US Participant becomes eligible (as determined in accordance with Code Section 409A) to make a deferral election under the Plan<sup>1</sup>, the US Participant must provide his or her Election Notice to the Company

within 30 days immediately following the date on which such US Participant becomes eligible to make such election, provided that such election shall apply only with respect to any compensation for services to be performed after providing Election Notice becomes irrevocable.

- c. A Termination Notice shall not be effective until the first day of the calendar year immediately following the calendar year in which it is provided to the Company.
- d. DSUs shall be settled within 70 days after the DSU Termination Date (the specific date of settlement shall be determined by the Company).
- e. Notwithstanding anything contained in the Plan to the contrary, an Election Notice for a US Participant shall apply on a pro-rata basis to each component of such US Participant's Annual Board Retainer.

#### 5. Substitution Events; Takeover Bids

- a. Neither Article 7 nor Article 8 shall apply to US Participants.
- b. In the event of a Substitution Event that constitutes a Change of Control Event, (i) all outstanding Units that are treated as non-qualified deferred compensation under Code Section 409A shall become fully vested (at 100% of target to the extent that any Performance Criteria are applicable to the Units) and shall be settled within 5 days after the occurrence thereof in the same form (and proportions) of consideration as received by the Shareholders and (ii) with respect to Units that are not treated as non-qualified deferred compensation under Code Section 409A, the Board may decide to (1) accelerate the vesting and settlement of such Units, (2) cause the acquiring or surviving company or a parent to assume such Units or issue replacement awards on substantially the same terms and having substantially the same economic value (as determined by the Board) or (3) take such other action with respect to such Units as the Board determines to be appropriate, provided that such action complies with Code Section 409A.
- c. In the event of a Substitution Event that does not constitute a Change of Control Event, (i) the Board may determine to vest, in whole or in part, outstanding Units that are treated as non-qualified deferred compensation under Code Section 409A, but the Board may not accelerate the settlement date of any such Units (nor may the acceleration of the vesting of any such Units result in the acceleration of the settlement date of such Units) and (ii) with respect to Units that are not treated as non-qualified deferred compensation under Code Section 409A, the Board may decide to (1) accelerate the vesting and settlement of such Units, (2) cause the acquiring or surviving company or a parent to assume such Units or issue replacement awards on substantially the same terms and having substantially the same economic value (as determined by the Board) or (3) take such other action with respect to such Units as the Board determines to be

appropriate, provided that such action complies with Code Section 409A. In addition, upon the occurrence of an event described in this Section 5(c), the Board may take the action described in clause (ii)(2) of the preceding sentence with respect to Units that are treated as non-qualified deferred compensation under Code Section 409A to the extent permitted by Code Section 409A (but such action shall not change the timing of settlement).

6. Adjustments. Notwithstanding anything contained in the Plan to the contrary, no adjustment made pursuant to Section 4.5 or Section 6.12 of the Plan shall have any effect on the timing of payment of any amount due to a US Participant.

7. Code Section 409A

- a. The Plan and all Units are intended to comply with, or be exempt from, Code Section 409A and all regulations, guidance, compliance programs and other interpretative authority thereunder, and shall be interpreted in a manner consistent therewith. Notwithstanding anything contained herein to the contrary, in the event any Unit is subject to Code Section 409A, the Board may, in its sole discretion and without a US Participant's prior consent, amend the Plan and/or any Grant Agreement, adopt policies and procedures, or take any other actions as deemed appropriate by the Board to (i) exempt the Plan and/or any Unit from the application of Code Section 409A, (ii) preserve the intended tax treatment of any such Unit or (iii) comply with the requirements of Code Section 409A. In the event that a US Participant is a "**specified employee**" within the meaning of Code Section 409A, and a payment or benefit provided for under the Plan would be subject to additional tax under Code Section 409A if such payment or benefit is paid within six (6) months after such US Participant's Separation From Service (within the meaning of Code Section 409A), then such payment or benefit shall not be paid (or commence) during the six (6) month period immediately following such US Participant's Separation From Service except as provided in the immediately following sentence. In such an event, any payments or benefits that would otherwise have been made or provided during such six (6) month period and which would have incurred such additional tax under Code Section 409A shall instead be paid to the US Participant in a lump-sum, without interest, on the earlier of (i) the first business day of the seventh month following the month in which such US Participant's Separation From Service occurs or (ii) the tenth business day following such US Participant's death. A US Participant's right to receive any installment payments under the Plan shall be treated as a right to receive a series of separate payments and, accordingly, each such installment payment shall at all times be considered a separate and distinct payment as permitted under Code Section 409A. Notwithstanding anything contained in the Plan or in a Grant Agreement to the contrary, neither the Company, any member of the Board nor any Affiliate or Subsidiary of the Company shall have any liability or obligation to any US Participant or any other person for taxes, interest, penalties or fines (including without limitation any of the foregoing resulting from the failure of any Unit granted hereunder to comply with, or be exempt from, Code Section 409A). Any

Unit that is to be settled or paid upon a termination of employment or service and that constitutes “**non-qualified deferred compensation**” under Code Section 409A shall not be paid or settled unless such termination of employment or service constitutes a Separation From Service.

\* \* \* \* \*

**Schedule "A"**  
**NOVADAQ TECHNOLOGIES INC.**  
**RESTRICTED SHARE UNIT GRANT AGREEMENT**

Restricted Share Unit Grant Agreement dated \_\_\_\_\_, 20\_\_ between NOVADAQ TECHNOLOGIES INC., a Company existing under the laws of Canada (the "Company") and \_\_\_\_\_ an individual residing in \_\_\_\_\_ (the "Participant").

**WHEREAS** the Company has adopted an Amended and Restated Long Term Incentive Plan (the "**Plan**", as it may be amended from time to time), which Plan provides for the granting of Restricted Share Units to RSU Participants (as defined in the Plan) entitling RSU Participants to receive on settlement of vested Restricted Share Units, a Cash Equivalent (as defined in the Plan), Shares in the capital of the Company or a combination thereof as determined by the Company;

**AND WHEREAS** the Company desires to continue to receive the benefit of the services of the Participant and to more fully align his or her interest with the Company's future success;

**AND WHEREAS** the board of directors of the Company (the "**Board**") approved the granting of a Restricted Share Unit to the Participant, upon the terms and conditions hereinafter provided;

**AND WHEREAS** the Company desires to grant to the Participant a Restricted Share Unit upon the terms and conditions hereinafter provided;

**AND WHEREAS** capitalized terms used and not otherwise defined in this Grant Agreement shall have the meanings set forth in the Plan or any applicable addendum;

**NOW THEREFORE** in consideration of the foregoing and the mutual agreements contained herein and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

1. **Restricted Share Units.** The Company hereby grants to the Participant, as of \_\_\_\_\_, 20\_\_, subject to the terms and conditions hereinafter set forth, \_\_\_\_\_ Restricted Share Units (the "**Restricted Share Units**"), vesting in accordance with the terms of this Agreement and in accordance with the Plan.
2. **Vesting of the Restricted Share Units.** Subject to the vesting restrictions in Section 3 below (if any) the Restricted Share Units shall vest according to the following table:

| <u>Date</u> | <u>% of Restricted Share Units Vested</u> |
|-------------|-------------------------------------------|
| ●           | 1/3, for a total of 1/3 vested            |
| ●           | 1/3 additional, for a total of 2/3 vested |

● 1/3 additional, for a total of 100% vested

3. **Performance Criteria.** Vesting of Restricted Share Units under Section 2 above is subject to the Company meeting the following performance criteria:
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4. **Subject to Plan.** This Restricted Share Units shall be subject in all respects to the provisions of the Plan and any applicable addendum, the terms and conditions of which are hereby expressly incorporated by reference, as same may be amended from time to time in accordance therewith. A copy of the Plan and the applicable addendum shall be provided to the Participant upon his or her reasonable request from time to time.
5. **Damages or Other Compensation.** The Participant acknowledges that the Participant has no entitlement to damages or other compensation arising from or related to not receiving any awards which would have vested or accrued to the Participant after the RSU Termination Date (as defined in the Plan). However, nothing herein is intended to limit any statutory or other legal entitlements on termination and such statutory or other legal entitlements shall, if required, apply despite this language to the contrary. In addition, no period of notice or payment in lieu of notice that follows the Participant's last day of actual and active employment shall be deemed to extend the Participant's period of employment for the purpose of determining the Participant's entitlement under the Plan.
6. **Shareholder Rights.** A Participant shall have no rights whatsoever as a shareholder in respect of any of the Restricted Share Units.
7. **Transfer of Restricted Share Unit.** The Restricted Share Units granted pursuant to this Agreement shall not be assignable or transferable by the Participant, except in accordance with the Plan.
8. **Notice.** Any notice required or permitted to be given hereunder shall be given in accordance with, and subject to, the provisions of the Plan.
9. **Governing Law.** This Agreement and the Restricted Share Units shall be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.
10. **French Language.** The parties agree that this Agreement as well as all documents relating thereto be drawn up in the English language only. Les parties seront censes avoir requis que cette contrat de meme que tous les documents s'y rattachant soient rediges en anglais seulement.

**IN WITNESS WHEREOF** the parties have caused this Restricted Share Unit agreement to be executed as of the date hereof.

**NOVADAQ TECHNOLOGIES INC.**

Per: \_\_\_\_\_

Authorized Signing Officer

**NAME OF PARTICIPANT:** \_\_\_\_\_

**SIGNATURE OF PARTICIPANT:** \_\_\_\_\_

Address: \_\_\_\_\_

**Schedule "B" <sup>2</sup>**  
**NOVADAQ TECHNOLOGIES INC.**  
**RSU SETTLEMENT NOTICE**

I, \_\_\_\_\_, in respect of the  
(print name)

Restricted Share Units that were granted to me on \_\_\_\_\_ by Novadaq Technologies Inc. (the "**Company**") pursuant to the Company's Amended and Restated Long Term Incentive Plan (the "**Plan**"), hereby elect to settle \_\_\_\_\_ Restricted Share Units (including for any fractional Restricted Share Units). Capitalized terms used but not defined herein have the meaning given to them in the Plan.

If the Company elects to settle my Restricted Share Units by paying me the Cash Equivalent for my Restricted Share Units, I acknowledge that the Company will deduct Applicable Withholding Taxes in accordance with the Plan.

If the Company elects to settle my Restricted Share Units by issuing me Shares, I understand that the Company may provide me with additional instructions to:

- tender cash, a certified cheque, a bank draft or money for full payment for all Applicable Withholding Taxes; or
- require me to undertake to direct that a number of Shares be sold, and the proceeds of such Shares be delivered to the Company, for full payment for all Applicable Withholding Taxes.

Date

Participant's Signature

(Print name)

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<sup>2</sup> Not applicable to US Participants.

**Schedule "C"**  
**NOVADAQ TECHNOLOGIES INC. (THE "COMPANY")**  
**DSU ELECTION NOTICE**

*All capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Plan or any applicable addendum.*

Pursuant to the Amended and Restated Long Term Incentive Plan (the "**Plan**"), I hereby elect to receive \_\_\_\_\_% of my Annual Board Retainer in the form of Deferred Share Units in lieu of cash.

I confirm that:

- (a) I have received and reviewed a copy of the terms of the Plan and any applicable addendum, and have reviewed, considered and agreed to be bound by the terms of this Election Notice and the Plan and any applicable addendum.
- (b) I have requested and am satisfied that the Plan and the foregoing be drawn up in the English language. *Le soussigné reconnaît qu'il a exigé que le Régime et ce qui précède soient rédigés et exécutés en anglais et s'en déclare satisfait.*
- (c) I recognize that when Deferred Share Units are settled in accordance with the terms of the Plan or any applicable addendum, income tax and other withholdings as required will arise at that time. Upon settlement of the Deferred Share Units, the Company will make or arrange with me to make all appropriate withholdings as required by law at that time.
- (d) The value of Deferred Share Units is based on the value of the Common Shares of the Company and therefore is not guaranteed.

For more complete information, reference should be made to the Plan and any applicable addendum.

Date: \_\_\_\_\_

\_\_\_\_\_  
(Name of Participant)

\_\_\_\_\_  
(Signature of Participant)

**Schedule "E"**  
**NOVADAQ TECHNOLOGIES INC.**  
**DEFERRED SHARE UNIT GRANT AGREEMENT**

**Name:** \_\_\_\_\_

**Award Date:** \_\_\_\_\_

Novadaq Technologies Inc. (the "**Company**") has adopted an Amended and Restated Long Term Incentive Plan (the "**Plan**"). Your award is governed in all respects by the terms of the Plan, including any applicable addendum, and the provisions of the Plan and any such addendum are hereby incorporated by reference. Capitalized terms used and not otherwise defined in this Grant Agreement shall have the meanings set forth in the Plan and any applicable addendum. If there is a conflict between the terms of this Grant Agreement and the Plan or any applicable addendum, the terms of the Plan or such addendum, as applicable, shall govern.

**Your Award**                                      The Company hereby grants to you \_\_\_\_\_Deferred Share Units.

**PLEASE SIGN AND RETURN A COPY OF THIS GRANT AGREEMENT TO THE COMPANY.**

By your signature below, you acknowledge that you have received a copy of the Plan and any applicable addendum, and have reviewed, considered and agreed to the terms of this Grant Agreement and the Plan and any applicable addendum.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

On behalf of the Company:

\_\_\_\_\_  
Name:  
Title:

**Schedule "F"**  
**NOVADAQ TECHNOLOGIES INC.**  
**ELECTION TO TERMINATE RECEIPT OF ADDITIONAL DEFERRED SHARE UNITS**

*All capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Plan or any applicable addendum.*

Notwithstanding my previous election on the DSU Election Notice dated \_\_\_\_\_, I hereby elect to terminate my participation in the Plan effective as of the first day of the calendar year following the date this Termination Notice is received by Novadaq Technologies Inc.

I understand that the Deferred Share Units already granted under the Plan and any applicable addendum cannot be settled until the DSU Termination Date.

I confirm that I have received and reviewed a copy of the terms of the Plan and any applicable addendum, and agree to continue to be bound by the Plan and any applicable addendum.

Date: \_\_\_\_\_

\_\_\_\_\_  
(Name of Participant)

\_\_\_\_\_  
(Signature of Participant)

**Schedule "F"**  
**NOVADAQ TECHNOLOGIES INC. (THE "COMPANY")**  
**DSU SETTLEMENT NOTICE**

I, \_\_\_\_\_, in respect of the  
(print name)

Deferred Share Units that were granted to me on \_\_\_\_\_ by the Company pursuant to the Company's Amended and Restated Long Term Incentive Plan (the "**Plan**"), hereby elect upon settlement of the Deferred Share Units (including for any fractional Deferred Share Units) to receive (check one):

- ☐ (i) the Cash Equivalent, calculated in accordance with Section 6.8(1) of the Plan;
- ☐ (ii) Shares, calculated in accordance with Section 6.8(2) of the Plan; or
- ☐ (iii) the Cash Equivalent for \_\_\_\_\_ Deferred Share Units and Shares for \_\_\_\_\_ Deferred Share Units.

If I elect to receive the Cash Equivalent or a portion of my Deferred Share Units as a Cash Equivalent, I acknowledge that the Company will deduct Applicable Withholding Taxes in accordance with the Plan.

If I elect to receive only Shares (or otherwise make an election such that I do not receive enough cash to pay the Applicable Withholding Taxes), I (check one):

- ☐ (i) enclose cash, a certified cheque, bank draft or money order payable to the Company in the amount of \$\_\_\_\_\_ as full payment for the Applicable Withholding Taxes;
- ☐ (ii) undertake to direct that such number of Shares are to be sold, and the proceeds of such Shares delivered to the Company, as is necessary to put the Company in funds equal to the amount that would have otherwise been required in (i) above; or
- ☐ (iii) elect to settle for cash such number of Deferred Share Units as is necessary to raise funds sufficient to cover such withholding taxes with such amount being withheld by the Company.

Date

Participant's Signature

(Print name)