Convenience translation

CollPlant Holdings Ltd.

Annual Report 2014

CollPlant Holdings Ltd.

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Auditor's Report

to the Shareholders of

CollPlant Holdings Ltd.

We have audited the accompanying consolidated statements of financial position of CollPlant Holdings Ltd. ("the Company") as at December 31, 2014 and 2013 and the consolidated statements of comprehensive loss, changes in equity and cash flows for each of the last three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles applied and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and 2013 and the results of the Company's operations, changes in equity and cash flows for each of the last three years in the period ended December 31, 2014, in conformity with International Financial Reporting Standards (IFRS) and the Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our opinion, we draw attention to Note 1A to the consolidated financial statements, which describes the factors underlying the significant uncertainly regarding the Company's continued existence as a going concern. The management's plans regarding these factors are also described in this note. The financial statements do not include adjustments for assets and liabilities and their classification which may be required if the Company is unable to continue as a going concern.

Tel Aviv,
March 22, 2015

Kesselman & Kesselman
CPAs
Part of PricewaterhouseCoopers International Limited

CollPlant Holdings Ltd.

Consolidated Statements of Financial Position

	Note	December 31 2014	December 31 2013
		NIS thousands	
Assets			
Current assets:			
Cash and cash equivalents	5	11,062	23,777
Other receivables	6	1,548	1,728
		12,610	25,505
Non-current assets:			
Restricted deposit in use	5	564	503
Long term receivables		52	67
Property, plant and equipment	7	2,007	2,462
Intangible assets	8	1,725	1,736
		4,348	4,768
Total assets		16,958	30,273
Liabilities and equity			
Current liabilities -			
Other payables:	10		
Trade payables		1,642	1,856
Other		1,005	1,333
		2,647	3,189
Agreements and contingent liabilities	12		
Total liabilities		2,647	3,189
Equity:	13		
Ordinary share capital		2,414	2,369
Premium and options		130,918	130,918
Accumulated deficit		(119,021)	(106,203)
Total equity		14,311	27,084
Total liabilities and equity		16,958	30,273

Yaron Yaniv **Chairman of the Board**	**Yehiel Tal** **CEO**	**Eran Rotem** **CFO**

The financial statements were approved by the Company's board of directors on March 22, 2015

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

CollPlant Holdings Ltd.

Consolidated Statements of Comprehensive Income

	Note	Year ended December 31		
		2014	2013	2012
		NIS thousands		
R&D expenses:	14			
R&D expenses		14,879	16,151	20,706
Participation in R&D expenses		(5,145)	(3,717)	(8,472)
R&D expenses, net		9,734	12,434	12,234
General and administrative, marketing and sales expenses	15	3,906	3,747	5,102
Loss from operations		13,640	16,181	17,336
Financial income	16	642	25	199
Financial expenses	16	25	314	44
Financial expenses (revenue), net		(617)	289	(155)
Comprehensive loss for the year		13,023	16,470	17,181
Basic and diluted loss per share attributable to Company shareholders (NIS)	17	0.05	0.11	0.13

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

CollPlant Holdings Ltd.

Consolidated Statements of Changes in Equity

	Note	Equity attributable to shareholders of the Company			
		Ordinary share capital	Premium and options	Accumulated deficit	Total equity
		NIS thousand			
Balance as at December 31, 2011		1,207	91,697	(74,843)	18,061
Movement in 2012:					
Comprehensive loss for the year				(17,181)	(17,181)
Benefit component in grant of options to employees and consultants				1,829	1,829
Proceeds from issuing shares, less expenses Issue amounting to NIS 292 thousand	13(A)(4)	70	3,155		3,225
Proceeds from issue of shares and options, less issue expenses of NIS 793 thousand	13(A)(5)	240	9,521		9,761
Balance as at December 31, 2012		1,517	104,373	(90,195)	15,695
Movement in 2013:					
Comprehensive loss for the year				(16,470)	(16,470)
Benefit component in grant of options to employees and consultants				462	462
Proceeds from issuing shares, less expenses Issue amounting to NIS 668 thousand	13(A)(6)	169	7,871		8,040
Proceeds from issue of shares and options, less issue expenses of NIS 1,963 thousand	13(A)(7) (8)	683	18,674		19,357
Balance as at December 31, 2013		2,369	130,918	(106,203)	27,084
Movement in 2014:					
Comprehensive loss for the year				(13,023)	(13,023)
Benefit component in grant of options to employees and consultants				205	205
Exercise of options for shares	13B(5)	45			45
Balance as at December 31, 2014		2,414	130,918	(119,021)	14,311

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

CollPlant Holdings Ltd.

Consolidated Statements of Cash Flows

	Year ended December 31		
	2014	**2013**	**2012**
	NIS thousands		
Cash flows from operating activities:			
Net cash used for activities (see appendix)	(12,993)	(13,269)	(14,594)
Interest received	35	25	164
Net cash used for operating activities	(12,958)	(13,244)	(14,430)
Cash flows from investment activities:			
Purchase of property, plant and equipment	(336)	(474)	(434)
Restricted deposit in use	(61)	77	(100)
Acquisition of software			(18)
Net cash used for investment activities	(397)	(397)	(552)
Cash flows from finance activities:			
Proceeds from issue of shares and options, less issue expenses		27,397	12,986
Exercise of options for shares	45		
Net cash from finance activities	45	27,397	12,986
Increase (decrease) in cash and cash equivalents	(13,310)	13,756	(1,996)
Cash and cash equivalents at the beginning of the period	23,777	10,308	12,183
Gains (losses) from exchange differences for cash and cash equivalents	595	(287)	121
Cash and cash equivalents at the end of the period	11,062	23,777	10,308

CollPlant Holdings Ltd.

Appendix to the Consolidated Statements of Cash Flows

	Year ended December 31		
	2014	2013	2012
	NIS thousands		
Appendix to the statement of cash flow			
A. Cash flows from operating activities:			
Loss for the year	(13,023)	(16,470)	(17,181)
Adjustments for:			
Depreciation and amortization	802	951	1,221
Benefit component for options granted to employees and service providers	205	462	1,829
Losses (gains) from exchange differences for Cash and cash equivalents	(595)	287	(121)
Interest received	(35)	(25)	(164)
	(12,646)	(14,795)	(14,416)
Changes in operating asset and liability items:			
Decrease (increase) in other receivables	180	1,301	(157)
Decrease (increase) in other long-term receivables	15	15	35
Increase (decrease) in trade payables	(214)	173	195
Decrease in advance proceeds		-	(589)
Increase (decrease) in other payables	(328)	37	338
	(347)	1,526	(178)
Net cash used for activities	(12,993)	(13,269)	(14,594)

The accompanying notes are an integral part of the financial statements

NOTE 1 - GENERAL

A. CollPlant Holdings Ltd. is a biotechnology medical device company. The Company operates through CollPlant Ltd., a wholly-owned subsidiary engaging in research, development, manufacture and marketing of collagen-based medical products (CollPlant Holdings Ltd. and CollPlant Ltd. will be referred to hereinafter as "the Company" or " CollPlant") The Company's products are based on recombinant human collagen produced from genetically-modified tobacco plants to produce human collagen. CollPlant uses collagen in the medical field in general and particularly in orthopedics, soft tissue repair and wound healing.

The Company holds the entire share capital of the subsidiary, CollPlant Ltd., which started operations on June 1, 2004.

The Company has not yet generated income from its operations and as at the reporting date, has accrued losses of NIS 119 million. The Company plans to continue research and development, production and marketing in the coming year, supported by funding sources that include the Company's cash balances, grants from government authorities, and proceeds from strategic partners. Management believes that these funding sources will allow the Company's operations to continue at least until August 2015.

The Company plans to focus on orthopedics in 2015, including soft and hard tissue repair and wound healing. The Company's plans include the completion of clinical trials in 2015 for two products: a syringe for treatment of penetrating wounds in diabetic patients and a product for tendon repair; and application for CE approvals for marketing in Europe and obtaining the relevant approvals. The Company's plans also include signing an agreement with international partner for development of a product for bone repair, an agreement which is planned to include payment components for a license based on milestones, royalties from future sales, payment for the products, and the continued cover of all development costs. The Company also continues to streamline manufacturing processes of collagen protein.

The Company is taking steps to raise additional financing sources to allow the continuation of operations beyond this period. These sources include (1) signing and implementation of agreements with joint product-development companies, agreements that include full financing of development costs and payments to the Company for a license to sell the Company's products in the future; and (2) raising finances from private and/or institutional investors in Israel and overseas, in accordance with developments in section (1) above. It is uncertain whether the Company will be able to raise additional finances as aforesaid.

These factors raise substantial doubt regarding the Company's ability to continue as a going concern. The financial statements do not include adjustments for assets and liabilities and their classification which may be required if the Company is unable to continue as a going concern.

The address of the Company's registered office is 3 Sapir St., Science Park, Ness Ziona, Israel.

B. In accordance with Regulation 4 of the Regulations for Periodic and Immediate Reports, the Company has not attached separate financial information to its consolidated financial statements in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970. The Company has not included separate financial information due to the negligible effect that the separate financial statements have on the consolidated financial statements and since addition of the information is not material to the financial statements.

For this purpose, the Company reviewed, among other things, the comparison of the separate financial information with the consolidated financial statements and the information provided in the consolidated financial statements. The information that was reviewed included the following items and their percentage of the consolidated financial statements:

NOTE 1 – GENERAL (CONTD.)

	December 31, 2014	Percentage of the consolidated financial statements
	NIS thousands	
Cash and cash equivalents	9,063	82%
Assets, with the exception of cash and cash equivalents	168	3%
Current liabilities	453	18%

	Year ended December 31, 2014	Percentage of the consolidated financial statements
	NIS thousands	
Operating expenses	1,150	8%
Net cash used for operating activities	765	6%

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis of presentation of the financial statements

The Company's financial statements as at December 31, 2014 and December 31, 2013 and for each of the three years in the period ended December 31, 2014 were prepared in conformity with International Financial Reporting Standards, which are the standards and interpretations issued by the International Accounting Standard Board ("IFRS"), and include the additional disclosure required in accordance with the Securities Regulations (Annual Financial Statements), 2010.

1) The main accounting policies described below have been applied consistently to all the years presented, unless otherwise stated.
   The consolidated financial statements have been prepared on the basis of historical cost.

   The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment when applying the Company's accounting policies. Note 3 provides disclosure of areas involving a considerable degree of judgment or complexity, or areas where assumptions and estimates have a material effect on the financial statements. Actual results may differ materially from the estimates and assumptions used by the Company's management.

2) The Company’s operating cycle is 12 months

3) The Company analyses the expenses recognized in the statement of income using the function of expense classification method.

B. Consolidated financial statements

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to affect the entity, is exposed, or has rights, to variable returns from its involvement with the investing entity, and it has the ability to affect those returns arising from the entity. Subsidiaries are fully consolidated as from the date on which control is transferred to the Company. Consolidation is discontinued when control ends.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

C. Translation of foreign currency reserves and transactions

1) Functional currency and presentation currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the Company operates ("the Functional Currency"). The financial statements are stated in new Israeli shekels (NIS), which is the functional and presentation currency of the Company and its subsidiary.

2) Transactions and balances

Transactions in currencies other than the Functional Currency (foreign currencies) are translated into the Functional Currency at exchange rates at the transaction dates. Exchange differences arising from settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates at the end of the period are recognized in the statement of income.

Gains and losses arising from changes in exchange rates are recognized in the statement of comprehensive loss under financing expenses (income)

D. Property, plant and equipment

An item of property, plant and equipment is first included in accordance with the acquisition cost. The cost of an item of property, plant and equipment includes:

1. Purchase price , including import duties and non-refundable purchase taxes, net of trade discounts and rebates.

2. Costs that can be directly attributed to bringing the asset to the location and condition required for it to operate in the manner intended by management
Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.
Amortization and impairment for the item of property, plant and equipment presented at cost are recognized in profit or loss.

Depreciation is calculated using the straight line method to reduce the cost of fixed asset items to their residual value over their estimated useful life, as follows:

	%
Computer equipment	33
Greenhouse equipment*	10-25
Office furniture*	6-15
Laboratory equipment	20-25

* Greenhouse equipment - agricultural equipment used in the tobacco production greenhouse

Leasehold improvements are depreciated using the equal depreciation method over the rental period or the expected useful life of the improvements, whichever is shorter.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Impairment of the asset to its recoverable amount is recognized as incurred, if the carrying amount of the asset is greater than its estimated recoverable amount (see also section F below).

Gains or losses on disposal of assets are determined by comparing the net proceeds received with the carrying amount and are recognized under capital loss in the statement of comprehensive loss.

E. Intangible assets

1) Know-how

Know-how was created as part of the incorporation of CollPlant. CollPlant developers transferred the initial know-how to CollPlant in return for allocation of shares issued on the incorporation date of CollPlant, in exchange for transfer of their initial know-how to CollPlant. Other than allocation of shares, the developers have received no consideration. The fair value of the know-how is recognized in CollPlant's equity against creation of knowledge.

This asset is not systematically amortized and the Company assesses impairment once a year. The assessment is carried out more frequently if there are indications of impairment. The intangible asset balance remained unchanged as at December 31, 2014 and 2013.

2) Software

Acquired software licenses are capitalized on the basis of acquisition and usage costs of the specific software. These costs are amortized on a straight-line basis over the estimated useful life of licenses (three years).

3) R&D

Research expenses are recognized as an expense as incurred. Costs incurred for development projects (referring to design and testing of new or improved products) are recognized as intangible assets when the following conditions exist:

- It is technically feasible to complete the intangible asset so that it will be available for use.
- Management intends to complete the development of the intangible asset and to use or sell the asset.
- The intangible asset can be used or sold.
- It is possible to demonstrate how the intangible asset will generate probable future economic benefits.
- There are adequate technical, financial and other resources to complete development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset can be reliably measured during its development.

Other development costs that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in subsequent periods.

Up to December 31, 2014, the Company was not in compliance with the regulations for capitalizing development costs as an intangible asset and accordingly, no asset whatsoever has been recognized in the financial statements for these costs.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

F. Impairment of non-monetary assets

Assets with an indefinite useful life, such as goodwill or intangible assets not yet available for use, are not amortized and are tested for impairment once a year
Depreciable assets are tested for impairment if events or changes in circumstances indicate that the carrying amount is not recoverable. The amount of the impairment loss is equal to the excess of the carrying amount over its recoverable amount. The recoverable amount of an asset is the greater of its fair value less selling costs, and its value in use. For the purpose of impairment testing, assets are grouped together into the smallest group of assets for which there are separate identifiable cash flows (cash-generating units). Impaired non-financial assets, other than goodwill, are reviewed for reversal at each reporting date.

G. Government grants

Government grants relating to costs are recognized as expenses in profit or loss on a systematic basis over the periods in which the Company recognizes the related costs (for which the grants are intended to compensate).

Grants from the Chief Scientist in the Ministry of Industry, Trade and Labor ("the Chief Scientist") for the Company's research and development ("the Chief Scientist Grants") are accounted for as forgivable loans according to IAS 20, Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20").

The Chief Scientist Grants received subsequent to January 1, 2009 are recognized and measured in accordance with IAS 39. If on the date the entitlement to the Chief Scientist Grants is established, ("the Entitlement Date"), the Company's management concludes that there is no reasonable assurance that the Chief Scientist's Grant for which entitlement was established ("the Grant Received") will not be refunded, the Company recognizes a financial liability at that date accounted for in accordance with the guidelines in IAS 39 for financial liabilities measured at amortized cost. The difference between the Grant Received and the fair value of the financial liability on the date of initial recognition is accounted for as a government grant, which is recognized in profit or loss as a deduction of research and development expenses.

If, on the Entitlement Date, the Company's management concludes that there is reasonable assurance that the Grant Received will not be refunded, at that date, the amount of the grant is recognized in profit or loss as a reduction of research and development expenses. If, in subsequent periods, the Company's management concludes for the first time that there is no reasonable assurance that the Grant Received will not be refunded, at that date, the Company will recognize a financial liability against profit or loss. The financial liability is accounted for in accordance with the provisions set out in IAS 39 for financial liabilities measured at amortized cost.

For Chief Scientist Grants received up to and including December 31, 2008, if on the Entitlement Date, the Company concluded that there is no reasonable assurance that the Grant Received will not be refunded, the Company recognized a provision, which is measured in accordance with the guidelines in IAS 37, Provisions, Contingent Liabilities and Contingent Assets. ("IAS 37").
If, on the Entitlement Date, the Company's management concludes that there is reasonable assurance that the Grant Received will not be refunded, and accordingly it is recognized in profit or loss at that date, and in subsequent periods, it is established for the first time that it is more likely than not that the project will succeed and that royalties will be paid to the Chief Scientist, the Company recognizes a provision against profit or loss, which is measured in accordance with the guidelines in IAS 37.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Cash and cash equivalents

In consolidated statements of cash flows, cash and cash equivalents include the following: cash on hand, short-term bank deposits, and other short-term highly liquid investments with maturities of three months or less.

I. Share capital

The Company's ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares or options are recognized in equity net of issue proceeds.

J. Trade payables

Trade payables include the Company's liabilities to pay for goods or services purchased from suppliers in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year, otherwise they are recognized as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost based on the effective interest method.

K. Deferred taxes

The Company recognizes deferred taxes based on the liability method, for temporary differences between the carrying amounts of assets and liabilities included in the consolidated financial statements and the amounts used for tax purposes. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. In addition, deferred taxes are not recognized if the temporary differences arise on initial recognition of an asset or a liability, other than in a business combination, which, at the time of the transaction, have no effect on profit or loss - whether for accounting or tax purposes. The amount of deferred taxes is determined in accordance with the tax rates (and tax laws) that have been enacted or substantively enacted as at the date of the financial statements and are expected to apply when the deferred tax assets will be realized or when the deferred tax liabilities will be settled.

Deferred tax assets are recognized for deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. .

Deferred tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities;

- They relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis.

In the absence of a forecast of future taxable income, a deferred tax asset was not recognized in the Company's financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

L. Employee benefits

1) Liability for severance pay

A defined contribution plan is a post-employment benefit plan whereby the company makes fixed contributions to a separate independent entity, so that the group has no legal or constructive obligation to make further contributions if the fund assets are insufficient to pay all the employees the benefits for services in the current and prior periods.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Company has a number of pension plans. The plans are funded through payments to insurance companies or pension funds managed by a trustee.

In accordance with their terms, these pension plans meet the definition of a defined contribution plan as above.

As described above, the Company purchases insurance policies and makes contributions in pension and severance funds to finance its obligation in respect of a defined contribution plan. When making the contributions, the Company has no obligation to additional payment. The contributions are recognized as employee benefit expenses when services are rendered by the eligible employees. Advance contributions are recognized as an asset, to the extent that the Company is entitled to a cash refund or a reduction in future payments.

2) Holiday and convalescence pay

By law, all employees are entitled to holiday and convalescence pay, calculated on a monthly basis. The right is based on the employment period.

M. Share-based payment

The Company has a share-based payment plan for employees and service providers, settled by the Company's equity instruments, whereby the Company receives services from employees and service providers in exchange for the Company's equity instruments (options). The fair value of services received from employees and service providers in exchange for the options is recognized as an expense in the statement of comprehensive loss. The total amount recognized as an expense in profit or loss is based on the fair value of the options granted, without taking into account the effect of service conditions and non-market vesting conditions.

Non-market vesting conditions are included in the assumptions used to estimate the number of options expected to vest. The total expense is recognized in the vesting period, which is the period for fulfillment of all the defined vesting terms of the share-based payment arrangement.

At each reporting date, the Company adjusts its estimates of the number of options that are expected to vest, based on the non-market vesting conditions, and recognizes the effect of the change compared to original estimates, if any, in the statement of comprehensive loss, and a corresponding adjustment in equity.

When exercising the options, the Company issues new shares. Proceeds, net of directly attributable transaction costs, are recognized in share capital (par value) and premium when exercising the options.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

N. Loss per share

Basic loss per share is generally based on the distributable loss to ordinary shareholders, divided by the weighted average number of ordinary shares outstanding in the period, net of shares held by the Company.

When calculating diluted loss per share, the Company adjusts the loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

Potential shares are only taken into account if their effect is dilutive (reduces earnings per share or increases loss per share).

O. New standards and interpretations not yet adopted

IFRS 9 (2010), Financial Instruments

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories or financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

NOTE 3 – SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are reviewed on an ongoing basis and are based on past experience and other factors, including expectations of future events, which are considered reasonable in view of current circumstances.

A. Significant accounting estimate

The Company makes estimates and assumptions with respect to the future. By nature, the accounting estimates are rarely identical to actual results. The estimate that has a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in the next financial year is listed below.

Impairment of know-how

The Company reviews annually the need to record impairment of know-how.
To test for impairment, the Company as a whole has been identified as the smallest cash-generating unit to which the intangible asset can be attributed. Accordingly, the Company measured the recoverable amount of the Company as a whole. The recoverable amount is the higher of value in use and fair value less costs of disposal. In accordance with IFRS 13, the quoted market price in an active market provides the most reliable evidence of fair value. Since fair value less costs of disposal, which is based on the market price of the Company, is significantly higher than the smallest cash-generating unit, the Company determined that no impairment exists. See also Note 2E(1).

B. Significant judgments made when applying the Company's accounting policy

1) Grants from the Chief Scientist

The Company's management is required to examine whether there is reasonable assurance that the grant that was received will be refunded. In addition, if, at the date of initial recognition, the grant is recognized in the statement of income, the Company's management is required to examine whether there is a reasonable probability of the project's success and of payment of royalties to the Chief Scientist. The Company's management believes that as at December 31, 2014, there is reasonable assurance that the grant that was received will not be repaid, therefore the liability is not included in the Company's financial statements.

2) Development costs

Development costs are capitalized in accordance with the accounting policy described in Note 2E(3). Capitalization of costs is based on management's judgment that there is technological and economic feasibility, usually when the product development project reaches a defined milestone, or when the Company enters into a transaction to sell the know-how resulting from the development.

The Company's management believes that as at December 31, 2014, the above conditions did not exist, therefore development costs were not capitalized.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial risk management

1) Financial risk factors

The Company's activities expose it to diverse financial risks: currency risk, credit risk, and liquidity risk. The Company's comprehensive risk management plan focuses on the unpredictability of financial markets and the attempt to minimize potential adverse effects on the Company's financial performance.
The Company's CFO is responsible for risk management in accordance with the policy approved by the board of directors.

(A) Market risks

Exchange rate risk

The Group operates internationally and is exposed to exchange rate risks arising from exposure to various currencies, primarily the US dollar. The exchange rate risk is due to cash balances, future commercial transactions, and assets or liabilities denominated in foreign currency.

On December 31, 2014, if the Company's Functional Currency had depreciated by 5% against the US dollar, and if all the other variables had remained the constant, the post-tax loss for the year would have been lower by NIS 220 thousand (December 31, 2013, NIS 212 thousand), mainly due to losses from exchange rate differences for translation of cash balances, other receivables and trade payables.

B) Liquidity risk

The Company has not yet produced profits or positive cash flows from its operating activities, and the continuation of its operations in the current format is subject to raising financing sources until a positive cash flow is generated from its operations. The Company's management believes that its cash balances allow it to realize its development plans at least until August 2015. The work plan can be changed and adjusted in accordance with the Company's liquidity.

2) Capital risk management

The objectives of the Company's capital risk management are to maintain the Company's ability to continue as a going concern in order to provide shareholders with a return on their investment and to maintain an optimal capital structure to reduce the cost of capital.

NOTE 5 – CASH AND CASH EQUIVALENTS

	December 31	
	2014	2013
	NIS thousands	
Cash on hand and in the bank	11,062	23,769
Short-term bank deposits	-	8
Cash and cash equivalents	11,062	23,777
Breakdown by currency:		
NIS	6,563	18,983
In foreign currency (mainly USD)	4,499	4,794
	11,062	23,777

As at December 31, 2014, the Company has another cash deposit of NIS 564 thousand. This is a restricted deposit serving as collateral for the lease. The deposit is recognized under non-current assets.

NOTE 6 – OTHER RECEIVABLES

	December 31	
	2014	2013
	NIS thousands	
Value added tax	227	781
Receivables for participation in R&D expenses	1,122	726
Prepaid expenses	164	170
Other	35	51
Other receivables	1,548	1,728

Most financial balances are in NIS and are unlinked.

The carrying amount of other receivables is a reasonable approximation of their fair value since the effect of discounting is insignificant.
The maximum exposure to credit risk as at December 31, 2014 for trade and other receivables that comprise financial assets, is the fair value of each group of trade and other receivables comprising financial assets. The Company does not hold any collateral for these receivables.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Composition of property and accumulated depreciation, by principal groups, and the movements therein in 2014:

	Costs				Accumulated depreciation				
	Carrying amount at beginning of year	Additions in the year	Disposals in the year	Carrying amount at end of year	Carrying amount at beginning of year	Additions in the year	Disposals in the year	Carrying amount at end of year	Depreciated balance as at December 31, 2014
	NIS thousands				NIS thousands				NIS thousands
Computer equipment	603	30	35	598	497	58	35	520	78
Office furniture	438			438	135	26		161	277
Laboratory equipment	3,718	268	3	3,983	3,039	335	3	3,371	612
Greenhouse equipment	2,982			2,982	1,933	266		2,199	783
Leasehold improvements	938	38		976	613	106		719	257
	8,679	336	38	8,977	6,217	791	38	6,970	2,007

Composition of property and accumulated depreciation, by principal groups, and the movements therein in 2013:

	Carrying amount at beginning of year	Additions in the year	Carrying amount at end of year	Carrying amount at beginning of year	Additions in the year	Carrying amount at end of year	Depreciated balance as at December 31, 2013
	NIS thousands			NIS thousands			NIS thousands
Computer equipment	517	86	603	440	57	497	106
Office furniture	426	12	438	108	27	135	303
Laboratory equipment	3,574	144	3,718	2,610	429	3,039	679
Greenhouse equipment	2,973	9	2,982	1,628	305	1,933	1,049
Leasehold improvements	715	223	938	496	117	613	325
	8,205	474	8,679	5,282	935	6,217	2,462

NOTE 8 – INTANGIBLE ASSETS

Composition of intangible assets and accumulated amortization, by principal groups, and the movements therein in 2014:

	Costs		Accumulated depreciation			
	Carrying amount at beginning of year	Carrying amount at end of year	Carrying amount at beginning of year	Additions in the year	Carrying amount at end of year	Depreciated balance as at December 31, 2014
	NIS thousands		NIS thousands			NIS thousands
Software	104	104	88	11	99	5
Know-how	1,720	1,720				1,720
	1,824	1,824	88	11	99	1,725

Composition of intangible assets and accumulated amortization, by principal groups, and the movements therein in 2013:

	Carrying amount at beginning of year	Carrying amount at end of year	Carrying amount at beginning of year	Additions in the year	Carrying amount at end of year	Depreciated balance as at December 31, 2013
	NIS thousands		NIS thousands			NIS thousands
Software	104	104	72	16	88	16
Know-how	1,720	1,720				1,720
	1,824	1,824	72	16	88	1,736

NOTE 9 – INCOME TAX

A. Taxation of the Company and its subsidiary

1) As from the 2008 fiscal year, the results of the Company and its subsidiary in Israel are measured at nominal values for tax purposes. Up to the end of the 2007 tax year, measurement of the results of the Company and its subsidiary for tax purposes took into account changes in the CPI, in accordance with the Income Tax Law (Adjustments for Inflation), 1985 ("the Adjustments Law").

2) Tax rates

   The income of the Company and its subsidiary is taxable at the regular rate of corporate tax. The rate of corporate tax in 2013 is 25%.

   On August 5, 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budgetary Goals for 2013 and 2014), 2013 was published in the official gazette. The Law established, among other things, an increase in the rate of corporate tax of 26.5% from the 2014 tax year onwards (see section B below for information about the increase in the rate of tax on the income of a preferred enterprise, as established in the Encouragement of Capital Investments Law, 1959).

B. Carry-forward tax losses

Deferred tax assets for carry-forward tax losses are recognized if it is expected that the tax benefit will be realized through the existence of future taxable profits.

The carry-forward losses of CollPlant Holdings Ltd. (without capital losses) as at December 31, 2014 and 2013 amount to NIS 5,884 thousand and NIS 5,094 thousand, respectively.

NOTE 9 - INCOME TAX (CONTD.)

The subsidiary, CollPlant Ltd., has losses amounting to NIS 103 million and NIS 89 million as at December 31, 2014 and 2013, respectively.

The Company did not recognize deferred taxes for the losses of the Company and the subsidiary, since they are not expected to be used in the foreseeable future.

C. Tax assessments

In general, by law, independent assessments filed by the Company and the subsidiary up to 2010 are considered as final (subject to the filing dates of the reports and establishment of the period of limitation under the law).

D. Value added tax

The Company and its subsidiary, CollPlant, are registered as an authorized dealer for VAT purposes.

NOTE 10 - OTHER PAYABLES

	December 31	
	2014	2013
	NIS thousands	
A. Trade payables		
Open accounts	1,599	1,813
Checks payable	43	43
	1,642	1,856
Breakdown by currency:		
NIS	1,546	1,300
In foreign currency (mainly USD)	96	556
	1,642	1,856
B. Composition of other payables:		
Employees and institutions for employees	667	965
Provisions for vacation and others	338	368
	1,005	1,333

The carrying amount of other payables is a reasonable approximation of their fair value since the effect of discounting is insignificant.

NOTE 11 – TERMINATION LIABILITY

A. In accordance with labor laws and valid labor agreements, the Company and subsidiary owe severance pay and pension to employees who will be dismissed or who will resign under certain circumstances.

B. The liability of Group companies in Israel to pay pension and the Company's liability for payment of compensation for employees in Israel, in accordance with Section 14 of the Severance Pay Law, are covered by fixed contributions in defined contribution plans. The amounts deposited are not included in the statements of financial position.

The amount recognized as an expense for defined contribution plans in 2014, 2013 and 2012 is NIS 958 thousand, NIS 855 thousand and NIS 1,154 thousand, respectively.

NOTE 12 - AGREEMENTS AND CONTINGENT LIABILITIES

A. Agreements:

1) Agreements for an operating lease – lease agreements:

a) In June 2008, CollPlant signed a lease agreement for six years and two months. The monthly rent amounts to NIS 54 thousand. As collateral for the lease agreement, and to secure vacation of the property, an amount of NIS 395 thousand was pledged in favor of the property owner.

In February 2011, following updates to the addendum to CollPlant's lease agreement, an additional amount was pledged to the property holder. In March 2013, additional space was added to the lease agreement. The pledge was updated and currently amounts to NIS 564 thousand.

On August 19, 2013, an agreement was signed to extend the lease, which ends on August 18, 2015 ("the Additional Lease Term for the Main Property"), in accordance with the provisions of the unprotected lease agreement and its appendixes ("the Original Lease Agreement").

b) At the end of April 2007, CollPlant signed a lease agreement with a third party for land in Yesod Hamaale. The lease period is for three years, with an option for renewal every year, up to another seven years. The Company extends the agreement in accordance with the terms of the option for renewal, every year, accordingly.

2) Commitment to pay royalties to the Government of Israel

The Company is obligated to pay royalties to the Government of Israel, based on proceeds from the sale of products for which the Government participated in development by means of grants.

In accordance with the terms of this participation, the Company will pay royalties to the Government at a rate of 3% of the total sales of products that were developed with the participation of the Government in the first three years, from the date repayment begins, 4% of the amount of sales in the three subsequent years, and 5% of total sales as from the seventh year, up to 100% of the sum of the grants received by the Company, linked to the US dollar, plus annual interest at LIBOR rates.

The maximum amount of royalties that the Company could be required to pay amounts to NIS 23,600 thousand as at December 31, 2014 (without LIBOR interest).

NOTE 12 - AGREEMENTS AND CONTINGENT LIABILITIES (CONTD.)

B. Development agreements with pharmaceutical and medical device companies

1) On November 17, 2010. CollPlant Ltd. and Pfizer signed an agreement for joint development of prototype products for the treatment of orthopedic problems. The agreement refers, among other things, to the distribution of rights in the results of the project. In accordance with the agreement, Pfizer paid CollPlant insignificant amounts for the development of prototypes under the agreement.

   On December 22, 2011 CollPlant and Pfizer signed another joint development agreement for development of a product for the orthopedic market ("the Development Agreement"). In accordance with the Development Agreement, the parties will collaborate in the development of a product comprised of Pfizer's therapeutic proteins and compounds based on CollPlant's recombinant human collagen (rhCollagen) ("the Product"). The Product is intended for repairing compound fractures and both companies will own the Product.

   In accordance with the Development Agreement, the development plan is divided into two periods (each period is comprised of two stages), over a total period of three years. CollPlant will receive a total consideration of USD 1.9 million for its activity in accordance with the Development Agreement, and subject to compliance with milestones and fulfillment of the conditions under the Development Agreement for each of the two agreement periods. In accordance with the Development Agreement, Pfizer was granted an exclusive right, limited in time, to negotiate the continuation of development and commercialization of the Product with CollPlant. The Development Agreement was signed after CollPlant successfully completed the first stage of activities set out in the Development Agreement of November 17, 2010, prototypes with Pfizer. In February 2012, an amount of USD 0.4 million was transferred, and the same amount was transferred at the beginning of 2013.

   As at the reporting date, and to the best of the Company's knowledge, based partially on public sources, in July 2013, Pfizer signed an agreement with another US company ("the US Company"), which specializes in orthopedic products, whereby Pfizer granted the US Company an exclusive, global license for the portfolio of projects related to Pfizer's bone morphogenetic protein ("BMP"). Pfizer will also continue to manufacture rhBMP-2 and supply it to the US Company. The Company is currently involved in joint development with the US Company for the Product, including work of development teams from both companies on samples for a bone treatment product, instead of the cooperation with Pfizer, which has expired. As at the reporting date, the Company believes that the work and negotiations between the parties will continue over the coming months, and if negotiations are successful, the Company believes that a joint development agreement will be signed with the US Company (or with the US Company and Pfizer, together), which includes milestones until commercialization of the Product. However, there is no assurance that the negotiations between these parties will culminate in a binding agreement on the said date or at all, as well as what the final terms of the agreement will be.

2) On October 29, 2012, CollPlant signed an agreement with Cellular Bioengineering Inc. ("CBI") for the supply of recombinant human collagen that CollPlant manufactures. CollPlant's collagen protein will be used in synthetic cornea implants. The agreement follows the memorandum of understanding between CollPlant and Eyegenix that was signed in February 2012.

   Subject to compliance with the terms of the agreement and to the acquisition of minimum annual quantities of collagen, which to date have amounted to quantities that are insignificant for the Company, CollPlant will grant CBI with an exclusive limited global license for the use of collagen in development of CBI products and for their commercial marketing. In return, CBI will pay CollPlant for the collagen in accordance with the acquired quantity, and will pay CollPlant royalties from future sales of CBI products in the area of use (if any).

NOTE 12 - AGREEMENTS AND CONTINGENT LIABILITIES (CONTD.)

C. Cooperation agreements and developments in clinical trials

1) On October 9, 2011, CollPlant and Maccabi Health Services obtained all the approvals required for an agreement to launch the first clinical trial on humans to treat chronic wounds in diabetes patients ("the Clinical Trial" and the "Agreement", respectively). The objective of the Clinical Trial was to prove the safety of Vergenix™ WD wound dressings, manufactured from recombinant collagen produced from tobacco plants. The Company believes that collection of clinical data in the Clinical Trial could contribute to the regulatory process and to obtaining approval for marketing the Company's product under development and other Company products based on recombinant human collagen.

   On August 7, 2012 CollPlant successfully completed the Clinical Trial, and the main objective of the Clinical Trial, which is to prove the safety of Vergenix® WD for human use, was achieved in full.

   In December 2012, CollPlant received CE mark approval to sell and market Vergenix ® WD wound dressing in Europe. See Note 12F(1).

2) On November 25, 2014, the Company launched a clinical trial with Vergenix™FG gel for treatment of wounds (in this section: "the Clinical Trial" and "the Medical Product", respectively). The Medical Product is a collagen-based gel for diabetic ulcers, burns, pressure ulcers, chronic wounds and surgical incisions.

   The Clinical Trial is expected to continue for a few months and aims to demonstrate the safety of the gel and evaluate its performance on patients with chronic foot ulcers. The trial took place at three HMO wound clinics in Israel and will include 20 patients. According to the protocol of the Clinical Trial, the patients receive one treatment with the Medical Product and are monitored over four weeks. A number of parameters are assessed to evaluate the effectiveness of the treatment, primarily the percentage of wound closure.

   On March 18, 2015, the Company announced successful interim results in the Clinical Trial. The interim results are for 10 patients out of the 20 patients participating in the Clinical Trial. Analysis of the interim results of the Clinical Trial demonstrated an excellent wound closure percentage of 80%-100% among the large majority of the patients, within four weeks after beginning the treatment. It was also demonstrated that the Company's product is safe for use on humans.

3) On January 12, 2015, the Company announced that it has launched a clinical trial with Vergenix™STR for treatment of tendinopathy (in this section: "the Clinical Trial" and "the Medical Product", respectively). The Medical Product is based on CollPlant's recombinant human collagen and platelet-rich plasma from the patient.

   The Clinical Trial is held in three major hospitals in the center of Israel and 20 patients are being treated. The objective of the Clinical Trial is to confirm the product's safety and assess its performance in patients suffering from tennis elbow. According to the protocol of the Clinical Trial, the patients will receive one treatment with the Medical Product and will be monitored over six months. Treatment efficacy will be assessed using several indicators, including a reduction of pain, tendon healing and recovery of hand movement.

NOTE 12 - AGREEMENTS AND CONTINGENT LIABILITIES (CONTD.)

D. Research grants from external sources

1) On January 20, 2010, a consortium with the participation of CollPlant received funding from the European Union Seventh Framework Program. The research subject is tendon regeneration. The program continued for four years, during which there was joint research and exchange of personnel between CollPlant and the other partners in Europe. As at 31 December 2014, the program has ended and proceeds of EUR 36 thousand were received.

2) On August 17, 2010, a consortium with the participation of CollPlant received additional funding from the European Union Seventh Framework Program ("the Program"). The objective of this research is to developing hernia meshes using human recombinant collagen. The total funding for CollPlant in the research program amounts to EUR 274 thousand.
   As at December 31, 2014, proceeds amounting to EUR 235 thousand were received. The amounts received are offset against the Company's R&D expenses. The program is expected to end in April 2015.

E. Regulation

1) In July 2012, CollPlant successfully passed the quality assurance audit of an EU Notified Body, and was granted ISO 13485 certification. ISO 13485 covers all aspects of quality assurance in the medical industry, from the development stage. The certification demonstrates that CollPlant is in compliance with the required standards for quality management of orthopedics and wound treatment products.

2) In December 2012, CollPlant received CE mark approval to sell and market Vergenix® WD wound dressing in Europe. The product is intended for the treatment of diabetes patients with chronic foot wounds. Vergenix® WD is CollPlant's first product to be approved for marketing and sales in Europe. CE mark approval demonstrates that CollPlant's Vergenix® WD is safe for human use.

NOTE 13 – CAPITAL AND SURPLUS

A. Share capital and options:

1) **Composition**

	Number of shares		
	Registered	Issued and paid up **	
	December 31 2014 and 2013	December 31	
		2014	2013
Ordinary shares of par value NIS 0.01 *	1,500,000,000	241,392,352	236,874,726

	Amount in NIS		
	Registered	Issued and paid up	
	December 31 2014 and 2013	December 31	
		2014	2013
Ordinary shares of par value NIS 0.01 *	15,000,000	2,413,923	2,368,747

* Traded on the TASE at a value of NIS 0.211 per ordinary share of NIS 0.01, as at December 31, 2014

** Not including 2,761,384 shares held by the Company

2) The ordinary shares confer on their holders the right to vote and participate in shareholder meetings (with one vote for each NIS 0.01 share), the right to receive profits and the right to participate in surplus assets on liquidation of the Company.

3) In 2014, Series B, C, D, and E options expired without exercise of the shares.

4) In accordance with the Company's shelf prospectus of February 2012 and the Company's shelf offering memorandum of February 23, 2012, in March 2012, the Company offered 26,753,000 ordinary shares of NIS 0.01 par value each of the Company. The securities were offered in an amount of 267,530 rights units, so that each eligible holder holding 600 ordinary shares of the Company was entitled to purchase one rights unit consisting of 100 ordinary shares of the Company at a price of NIS 0.5 per ordinary share, so that the total price for exercising one rights unit was NIS 50. The rights offering was not underwritten.

   In accordance with the notices for exercising the rights received by the Company, 7,033,639 ordinary shares, representing 26% of the securities offered were allotted, of which 5,156,710 are attributable to the Company's shareholders.
   The total consideration net of management and distribution fees and net of other expenses amounted to NIS 3.225 million.

NOTE 13 – CAPITAL AND SURPLUS (CONTD.)

5) On November 27, 2012, the Company raised NIS 10.55 million, gross (approximately NIS 9.76 million net of issue expenses) on the Israeli capital market. The finances were raised by way of a shelf offering under the existing shelf prospectus published by the Company in the past.

   In consideration for the capital that was raised, the Company issued 23,987,200 shares, 11,993,600 marketable Series E options and 11,993,600 marketable Series F options. The Company also allotted Series F options at a rate of 10% of the total options that were issued (1,119,360 options) to the offering manager for services rendered (transactions costs)

   Series E options expired on December 31, 2014 (as set out in Note 13(3) above). Series F options are exercisable up to December 31, 2016, with an exercise price of 70 agurot per share.

6) On October 2, 2013, the Company signed an investment agreement with Trauwin Pty Ltd (in this section: "the Investment Agreement"), whereby USD 2.5 million was invested in the Company in exchange for 16,856,173 shares (the issue expenses amounted to USD 190 thousand).

7) On December 18, 2013, the Company raised capital, by way of a non-standard offering, amounting to NIS 17.5 million, gross, in consideration for 58,333,000 shares and 58,333,000 Series F options. The issue expenses amounted to NIS 1.66 million. The offering was for institutional investors only. As part of the offering fees, on February 5, 2014, the Company granted 5,8333,000 Series F options to underwriters.

8) On December 23, 2013, the Company raised capital amounting to NIS 3.7 million gross, by way of a standard offering to the general public in consideration for 9,980,000 million shares and 9,980,000 Series F options. The issue expenses amounted to NIS 0.3 million. As part of the offering fees, on February 5, 2014, the Company granted 998,000 Series F options to underwriters.

B. Share-based payment

1) In 2004, the board of directors of CollPlant Ltd. approved an option plan for employees and consultants ("the Option Plan"), whereby senior employees of the Company, will be granted, free of charge, up to 20,000 options, each exercisable into one ordinary share of the Company of NIS 0.1. The ordinary shares that will be issued in accordance with the Option Plan will have the same rights as the other ordinary shares of the Company, immediately subsequent to their issue. An option that is not exercised within 10 years from the allotment date will expire, unless the board of directors extends its validity. In accordance with the investment agreement of 2008, the Option Plan was increased to 6% of the share capital of CollPlant Ltd. (fully diluted).

   In accordance with the Merger, the Company's board of directors approved the option plan for employees and consultants whereby employees and consultants will be granted options up to a maximum of 17,000,000 ordinary shares of the Company. As part of the merger, the options of CollPlant Ltd. were exchanged prior to the merger with options convertible into shares of the Company. See Note 13A (4) for information about the conversion ratio.

NOTE 13 – CAPITAL AND SURPLUS (CONTD.)

2) On May 29, 2013, 1,268,487 options were granted to employees and officers of the Company (who are not the CEO and/or a director), and 354,177 options were granted to officers of the Company subject to approval of the general meeting.

   On July 4, 2013, 270,000 options were granted to two employees, including an officer who is not the CEO and/or a director.

   The theoretical economic value of each option, at the grant date, calculated according to the Black and Scholes formula, is between NIS 0.07 and NIS 0.13. This value is based on the following assumptions: expected dividend at a rate of 0%, expected volatility at a rate of 85%, risk-free interest rate of 1.85%, and period up to exercise of 4 years. The volatility measured by the expected standard deviation is based on statistical analysis of the share price in benchmark companies.
   The exercise price of the options is between NIS 0.3 and NIS 0.44 (unlinked).

3) On September 8, 2014, the board of directors approved, further to the approval of the Company's compensation committee, the allotment of 400,000 options to VP R&D, exercisable for 400,000 shares of NIS 0.01 par value. The options will vest over four years. One quarter will vest one year after the grant date, and the balance will vest in equal parts at the end of each subsequent quarter. The value of the benefit for the options, calculated on the grant date, is NIS 42 thousand.

   The theoretical economic value of each option, at the grant date, calculated according to the Black and Scholes formula, amounts to NIS 0.11. This value is based on the following assumptions: expected dividend at a rate of 0%, expected volatility at a rate of 51.24%, risk-free interest rate of 2%, and period up to exercise of 4 years.

4) On October 29, 2014, the Company's general meeting approved a grant for the chairman of the board of directors, further to the resolution of the Company's board of directors and compensation committee in September 2014. The grant is for 7,241,770 options exercisable for 7,241,770 shares of NIS 0.01 par value, at an exercise price of NIS 0.26 per share. The options will vest over three years. One third will vest one year after the grant date, and the balance will vest in equal parts at the end of each subsequent quarter. The value of the benefit for the options, calculated on the grant date, is NIS 340 thousand.

   The theoretical economic value of each option, at the grant date, calculated according to the Black and Scholes formula, amounts to NIS 0.05. This value is based on the following assumptions: expected dividend at a rate of 0%, expected volatility at a rate of 51.24%, risk-free interest rate of 2%, and period up to exercise of 4 years.

Exercise of options

5) On January 9, 2014, the Company's CEO exercised a total of 4,517,626 options for a total of 4,517,626 ordinary shares of NIS 0.01 par value each, at an exercise price of NIS 0.01 per share. The proceeds of the exercise amounting to NIS 45 thousand were transferred to the Company.

NOTE 13 – CAPITAL AND SURPLUS (CONTD.)

6) All grants to employees were made in accordance with the plan, and are carried out within the provisions set out for this matter in Section 102 of the Income Tax Ordinance.

   In accordance with the track selected by the Company and these provisions, the Company is not entitled to claim a tax deduction carried to employee benefits, including amounts recorded as salary benefits in the Company's accounts, for the options granted to employees under the plan, except for any yield benefit component determined on the grant date.

   For those who are not employees of the Company, and for the Company's controlling shareholders (as defined in the Income Tax Ordinance) options were granted in accordance with section 3(I) of the Income Tax Ordinance.

Movement in the number of options and the related weighted average exercise prices, are as follows:

	Year ended December 31, 2014		Year ended December 31, 2013		Year ended December 31, 2012	
	No. of options	Average weighted exercise price	No. of options	Average weighted exercise price	No. of options	Average weighted exercise price
Outstanding at the beginning of the period	15,535,762	0.57	15,722,201	0.7	17,136,669	0.57
Granted	7,641,770	0.26	1,892,664	0.41		
Expired			(1,434,214)	1.39	(1,101,740)	1.1
Forfeited	(696,560)	0.44-1.39	(644,889)	1.39	(312,728)	1.39
Exercised	(4,517,626)	0.01	-			
In circulation at the end of the period	17,963,346	0.56	15,535,762	0.57	15,722,201	0.7
Exercisable at the end of the period	9,042,670	0.61	13,170,611	0.53	11,158,483	0.52

Information about the exercise price and remaining contractual life of outstanding options at the end of the year:

2014			2013			2012		
No. of outstanding options at the end of the year	Exercise price range	Weighted average of remaining contractual life	No. of outstanding options at the end of the year	Exercise price range	Weighted average of remaining contractual life	No. of outstanding options at the end of the year	Exercise price range	Weighted average of remaining contractual life
17,963,346	0.26-1.39	7.32	15,535,762	0.01-1.39	6.35	15,722,201	0.01-1.39	7.51

The expenses recognized in the Company's statements of income in 2014, 2013 and 2012 for options granted to employees amounted to NIS 205 thousand, 462 thousand and 1,830 thousand, respectively.

The plans are managed in accordance with the provisions established for this matter in section 102 of the Income Tax Ordinance.

NOTE 14 – RESEARCH AND DEVELOPMENT EXPENSES, NET

	Year ended December 31		
	2014	2013	2012
	NIS thousands		
Salary expenses and incidentals	6,246	7,462	8,768
Share-based payment	137	341	1,111
Subcontractors and consultants	3,693	3,381*	5,033
Perishable equipment and materials	659	765	1,589
Patents	736	1,014	336
Depreciation	750	901	1,174
Travel	287	338	178
Rent, maintenance and operation	2,056	1,842*	2,415
Others	315	107	102
	14,879	16,151	20,706
Less participation in R&D expenses See Note 12B(1)	(1,554)	(511)	(3,875)
Less participation in R&D expenses See Note 12(A)(2)	(3,591)	(3,206)	(4,597)
	9,734	12,434	12,234

* Reclassified

NOTE 15 – ADMINISTRATIVE AND GENERAL, MARKETING AND SALES EXPENSES

	Year ended December 31		
	2014	2013	2012
	NIS thousands		
Salary and expenses	1,803	1,405	2,248
Share-based payment	68	121	718
Salary and directors insurance	590	514	483
Rent and office maintenance	314	368	307
Professional services	859	833	796
Computer maintenance and software rental	9	52	14
Overseas travel	21	34	51
Depreciation	52	50	47
Advertising and business development expenses	165	126	250
Others	25	244	188
	3,906	3,747	5,102

NOTE 16 – FINANCING EXPENSES (INCOME)

	Year ended December 31		
	2014	2013	2012
	NIS thousands		
Financing expenses:			
Bank fees	25	27	44
Expenses arising from exchange rate fluctuations		287	
Total financing expenses	25	314	44
Financing income:			
Interest income on cash equivalents and deposits	35	25	103
Income arising from exchange rate fluctuations	607		96
Total financing income	642	25	199
Financing expenses (income), net	(617)	289	(155)

NOTE 17 – LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to the Company's shareholders by the weighted average number of ordinary shares issued, after taking into account, retrospectively, the benefit component in a rights offering The calculation of the diluted loss per share did not take into account 17,963,346 options for employees and service providers, and 88,337,260 Series F options, since their effect is anti-dilutive.

	December 31		
	2014	2013	2012
	NIS thousands		
Loss attributable to equity holders of the Company	13,023	16,470	17,181
Weighted average of the number of ordinary shares issued	241,280,958	156,306,705	128,546,048
Basic and diluted loss per share (NIS)	0.05	0.11	0.13

NOTE 18 – TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES

"Interested Party" - as defined in the Securities Regulations (Annual Financial Statements), 2010.

"Related Party" - as defined in IAS 24R.

The Company's key management personnel include members of the executive management and board of directors, in accordance with the definition of Related Parties in IAS 24.

A. Transactions with and benefits for interested and related parties

	Year ended December 31		
	2014	2013	2012
	NIS thousands		
CEO's salary *	1,209	1,249	1,541
Of which, benefit component for options		237	696
Remuneration of directors	893	879	1,529
Of which, benefit component for options **	44	8	696
Number of directors	5	5	5

* In accordance with the CEO's employment agreement, the CEO will be eligible for a bonus based on qualitative criteria and parameters determined by the Company, which will amount to a maximum of four salaries, plus a special bonus based on the fulfillment of additional conditions.

** The Company entered into an agreement with one of its shareholders (who also serves as a director of the Company as from May 20, 2010) for research consulting services. A monthly amount of NIS 32,000 will be paid in consideration for his services to CollPlant. It was further resolved that if there is a commercial agreement with a pharmaceutical company or if CollPlant shares are issued on the stock exchange, the consultant will be granted a bonus as set out in the agreement (as at the date of signing the reports, a decision regarding the bonus has not yet been reached).

NOTE 18 – TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES (CONTD.)

B. Balances with interested and related parties:

	Year ended December 31		
	2014	2013	2012
	NIS thousands		
For salary, incidentals and other benefits, the balance is stated in other payables under current liabilities	(339)	(448)	(162)

C. Benefits for key officers

Compensation for the CFO, VP Research and Development, COO (up to May 2013), and VP Quality Assurance, defined as key management personnel who are not interested parties, for their services provided to the Company, is as follows:

	Year ended December 31		
	2014	2013	2012
	NIS thousands		
Salary and other short-term benefits	1,776	2,234	2,636
Benefit component for grant of options	56	78	170
	1,832	2,312	2,806
Number of key managers	3	4	4

In accordance with the employment agreement of the Company's vice presidents, it was determined that they will be entitled to an annual bonus based on quantitative criteria and parameters to be determined in the first quarter of each year, amounting to a maximum of two salaries, subject to the approval of the CEO and board of directors (it is noted that a maximum limit was not set for one of the vice presidents).

NOTE 19 – SUBSEQUENT EVENTS

A. On March 4, 2015, the Company announced that its ADR level 1 program become effective in the United States. Each ADR comprises 100 ordinary shares of the Company, which will be traded over the counter (OTC) in the United States, under the symbol CQPTY.

B. On March 18, 2015, the Company announced successful interim results in the Clinical Trial for Vergenix™FG (see Note 12C(2)).