CollPlant Holdings Ltd.

2015 Annual Report

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TRANSLATION OF THE HEBREW ORIGINAL

REPORT OF INDEPENDENT AUDITORS

To the shareholders of

CollPlant Holdings Ltd.

We have audited the accompanying consolidated statements of financial position of CollPlant Holdings Ltd. ("the Company") as of December 31, 2015 and 2014 and the consolidated statements of comprehensive loss, changes in equity and cash flows for each of the two years ended December 31, 2015. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 of December 31, 2015 and 2014 and the results of their operations and cash flows for each of the two years ended December 31, 2015, in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB), and the provisions of Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our abovementioned opinion, we draw attention to note 1a to the consolidated financial statements, which presents factors indicating that there is substantial doubt as to the ability of the Company to continue as a going concern. Management plans in relation to those factors are indicated in that note. The financial statements do not include any adjustments to the value and classification of assets and liabilities that might be necessary if the Company is unable to continue as a going concern.

Tel-Aviv, Israel
March 29, 2016

CollPlant Holdings Ltd.

Consolidated Statements of Financial Position

	Note	December 31 2014	December 31 2015	Convenience translation into USD (note 1b) December 31, 2015
		NIS in thousands		In thousands
Assets				
Current assets:				
Cash and cash equivalents	5	11,062	5,317	1,362
Receivables	6	1,548	3,241	831
		12,610	8,558	2,193
Non-current assets:				
Restricted deposit	12A(1)(a)	564	565	145
Long-term receivables		52	73	19
Property and equipment	7	2,007	2,612	669
Intangible assets	8	1,725	1,721	441
		4,348	4,971	1,274
Total assets		16,958	13,529	3,467
Liabilities and equity				
Current liabilities:				
Accounts payable	10			
Trade payables		1,642	2,496	640
Other		1,005	1,254	321
		2,647	3,750	961
Commitments and contingent liabilities	12			
Total liabilities		2,647	3,750	961
Equity:	13			
Ordinary shares		2,414	2,665	683
Additional paid in capital		130,918	140,704	36,059
Accumulated deficit		(119,021)	(133,590)	(34,236)
Total equity		14,311	9,779	2,506
Total liabilities and equity		16,958	13,529	3,467

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

CollPlant Holdings Ltd.

Consolidated Statements of Comprehensive Loss

	Note	Year ended December 31		Convenience translation into USD (note 1b)
		2014	2015	2015
		NIS in thousands		In thousands
Research and development expenses, net:	14			
Research and development expenses		14,879	22,919	5,874
Participation in research and development expenses		(5,145)	(11,055)	(2,833)
Research and development expenses, net		9,734	11,864	3,041
General, administrative and marketing expenses	15	3,906	6,950	1,781
Operating loss		13,640	18,814	4,822
Financial income	16	642	215	55
Financial expenses	16	25	51	13
Financial expenses (income), net		(617)	(164)	(42)
Loss and comprehensive loss for the year		13,023	18,650	4,780
Basic and diluted loss per ordinary share (NIS/USD)	17	0.05	0.07	0.02
Weighted average ordinary shares outstanding		241,280,958	254,018,556	

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

CollPlant Holdings Ltd.

Consolidated Statements of Changes in Equity

	Note	Ordinary shares	Additional paid in capital	Accumulated deficit	Total equity
		NIS in thousands			
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)
Share-based compensation to employees and consultants				205	205
Exercise of options into shares	13B(11)	45			45
Balance as at December 31, 2014		2,414	130,918	(119,021)	14,311
Movement in 2015:					
Comprehensive loss for the year				(18,650)	(18,650)
Share-based compensation to employees and consultants				4,081	4,081
Proceeds from issue of shares and options, less issue expenses of NIS 1,297 thousand		250	9,760		10,010
Exercise of options into shares		1	26		27
Balance as at December 31, 2015		2,665	140,704	(133,590)	9,779
		Convenience translation into USD (note 1b) in thousands			
Balance as at December 31, 2013		607	33,550	(27,235)	6,922
Movement in 2014:					
Comprehensive loss for the year				(3,337)	(3,337)
Share-based compensation to employees and consultants				52	52
Exercise of options into shares	13B(11)	11			11
Balance as at December 31, 2014		618	33,550	(30,520)	3,648
Movement in 2015:					
Comprehensive loss for the year				(4,780)	(4,780)
Share-based compensation to employees and consultants				1,046	1,046
Proceeds from issue of shares and options, less issue expenses of $335 thousand		64	2,501		2,565
Exercise of options into shares		-	7		7
Balance as at December 31, 2015		683	36,059	(34,236)	2,506

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

CollPlant Holdings Ltd.

Consolidated Statements of Cash Flows

	Year ended December 31		Convenience translation into USD (note 1b)
	2014	2015	2015
	NIS in thousands		In thousands
Cash flows from operating activities:			
Net cash used in operations (see appendix)	(12,993)	(14,498)	(3,715)
Interest received	35	1	-
Net cash used in operating activities	(12,958)	(14,497)	(3,715)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(336)	(1,389)	(356)
Change in restricted deposit	(61)	-	-
Net cash used in investing activities	(397)	(1,389)	(356)
Cash flows from financing activities:			
Proceeds from issue of shares and options, less issue expenses		10,010	2,565
Exercise of options into shares	45	27	7
Net cash provided by financing activities	45	10,037	2,572
Increase (decrease) in cash and cash equivalents	(13,310)	(5,849)	(1,499)
Cash and cash equivalents at the beginning of the period	23,777	11,062	2,835
Exchange differences on cash and cash equivalents	595	104	26
Cash and cash equivalents at the end of the period	11,062	5,317	1,362

CollPlant Holdings Ltd.

Appendix to the Consolidated Statements of Cash Flows

	Year ended December 31		Convenience translation into USD (note 1b)
	2014	**2015**	**2015**
	NIS in thousands		**In thousands**
Appendix to the statement of cash flow:			
Cash flows from operating activities:			
Loss for the year	(13,023)	(18,650)	(4,780)
Adjustments for:			
Depreciation and amortization	802	788	203
Share-based compensation to employees and service providers	205	4,081	1,046
Exchange differences on cash and cash equivalents	(595)	(104)	(27)
Exchange differences on restricted deposit	-	(1)	-
Interest received	(35)	(1)	-
	(12,646)	(13,887)	(3,558)
Changes in operating asset and liability items:			
Decrease in other receivables	180	(1,693)	(435)
Decrease in other long-term receivables	15	(21)	(5)
Increase (decrease) in trade payables	(214)	854	219
Increase (decrease) in other payables	(328)	249	64
	(347)	(611)	(157)
Net cash used in activities	(12,993)	(14,498)	(3,715)

The accompanying notes are an integral part of the financial statements

NOTE 1 - GENERAL

A. Operations

CollPlant Holdings Ltd. is clinical-stage regenerative medicine company focused on developing and commercializing tissue repair products, initially for the orthobiologics and advanced wound care markets. CollPlant's products, are based on its proprietary plant-based technology, for the production of recombinant type I human collagen, or rhCollagen. The Company operates through CollPlant Ltd., a wholly-owned subsidiary (CollPlant Holdings Ltd. and CollPlant Ltd. will be referred to hereinafter as "the Company" or "CollPlant").

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

The Company has not yet generated income from its operations and as of December 31, 2015, has accrued losses of approximately NIS 134 million. The Company plans to continue research and development, production and marketing in the coming year (focusing on orthopedics, soft and hard tissue repair and wound healing), supported by funding sources as the Company's cash balances, grants from government authorities, proceeds from strategic partners and two million U.S. dollars raised in February 2016. Presently, the Company does not have sufficient cash resources to meet its plans in the twelve months following December 31, 2015.

The Company is taking steps to raise additional financing sources to allowing the continuation of operations. These steps include efforts towards (1) signing a definitive agreement with a U.S. leading company in Orthobiologids (see note 12b regarding signing a non-binding term-sheet), for the further development, commercialization and supply of a novel absorbable bio-active surgical matrix intended for use in spinal fusion and trauma applications. Upon successful crossing of the milestones of the agreement, CollPlant will receive payments for the license to use its technology, royalty payments for future global sales, as well as participation in costs associated with the building of a CollPlant-run manufacturing facility for the production of rhCollagen and the product; and (2) raising funds from private, public and/or institutional investors in Israel and overseas. It is uncertain whether the Company will be able to raise additional funds 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. If the Company is unable to raise the necessary funds, the Company may need to to curtail or cease operations.

B. Convenience translation into U.S. dollars ("dollars", "USD" or "$")

For the convenience of the reader, the reported New Israeli Shekel (NIS) amounts as of December 31, 2015 and for the year then ended have been translated into dollars at the Bank of Israel's representative rate of exchange for December 31, 2015 ($1 = NIS 3.902). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

C. Approval of financial statements

These financial statements were approved by the Board of Directors on March 29 2016.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis of presentation of the financial statements

The Company's financial statements as at December 31, 2015 and 2014 and for the years then ended were prepared in conformity with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board (IASB).

The significant 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.

B. Consolidated financial statements

A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The subsidiary is fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

C. Translation of foreign currency balances and transactions

1) Functional currency and presentation currency

Items included in the financial statements 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 dates of transaction.
Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss for the year.

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

D. Property and equipment

1) All property and equipment (including leasehold improvements) are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

   Repairs and maintenance are charged to the income statement during the period in which they are incurred.

2) The assets are depreciated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

	Years
Computer equipment	3
Greenhouse equipment*	4-10
Office furniture	7-17
Laboratory equipment	4-5

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

   Leasehold improvements are depreciated over the lease period or the expected useful life of the improvements, whichever is shorter.

   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).

3) Gains and losses on disposals are determined by comparing proceeds with the associated carrying amount. These are included in the statement of comprehensive loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

E. Intangible assets

1) In process research and development ("IPR&D")

Acquired IPR&D is presented based on the fair value at the date of the acquisition and is not depreciated during the research and development period. Such assets are tested annually for impairment, see F. below. The assessment is carried out more frequently if there are indications of impairment. The intangible asset balance remained unchanged as at December 31, 2015 and 2014.

2) Software

Acquired software licenses are capitalized on the basis of the cost incurred to acquire and bring to use 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.

As of December 31, 2015, the Company has not met the rules for capitalizing development costs as an intangible asset and accordingly, no asset whatsoever has been recognized in the financial statements for such costs.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

F. Impairment of non-monetary assets

Assets that have indefinite useful life, such as goodwill or intangible assets not ready for use, are not subject to amortization and are tested annually for impairment.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. For the years ended December 31, 2015 and 2014, no impairment has been recognized.

G. Government grants

Government grants, which are received from the Israeli Office of Chief Scientist (the "OCS") by way of participation in research and development that is conducted by the Company, fall within the scope of "forgivable loans," as set forth in International Accounting Standard 20 "Accounting for Government Grants and Disclosure of Government Assistance" ("IAS 20").

As approved by the OCS, the grants are received in installments as the program progresses. The Company recognizes each forgivable loan on a systematic basis at the same time the Company records as an expense the related research and development costs for which the grant is received, provided that there is reasonable assurance that (a) the Company complies with the conditions attached to the grant, and (b) it is probable that the grant will be received (usually upon receipt of approval notice). The amount of the forgivable loan is recognized based on the participation rate approved by the OCS; thus, a forgivable loan is recognized as a receivable when approved research and development costs have been incurred before grant funds are received.

Since at the time of grant approval there is reasonable assurance that the Company will comply with the forgivable loan conditions attached to the grant, and it is not probable that the related research and development will generate revenue, grant income is recorded against the related research and development expenses in the statement of comprehensive loss.

If forgivable loans are initially carried to income, as described above, and, in subsequent periods, it appears more likely than not that royalties will be paid to the OCS, the Company recognizes a liability which is measured based on the Company's best estimate of the amount required to settle the Company's obligation at the end of each reporting period.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

H. Cash and cash equivalents

Cash and cash equivalents include 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.

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

In accordance with labor laws and labor agreements in effect, the Company and its subsidiary are required to pay severance and pension benefits to employees who are dismissed or retire under certain circumstances.

The liability to pay pension and severance pay to employees in Israel who are covered by Section 14 of the Severance Pay Law, are covered by regular contributions to defined contribution plans. The amounts contributed are not included in the statement of financial position.

2) Vacation and recreation pay

By law, all employees are entitled to vacation and recreation 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, the proceeds, net of directly attributable transaction costs, are recognized in share capital (par value) and premium.

N. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments. The Company operates in one operating segment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

O. Loss per share

Basic loss per share is the net loss for the year 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).

P. New standards and interpretations not yet adopted

IFRS 9 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: amortized 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 in other comprehensive income of changes, resulting from own credit risk, in 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.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company has not yet assessed IFRS 9's full impact.

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 IPR&D

The Company reviews annually the need to record impairment of IPR&D.
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 carrying amount of the 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 OCS

In accordance with the accounting treatment prescribed in Note 2G, the Company's management is required to examine whether there is reasonable assurance that the grant that was received will be repaid. In addition, if, at the date of initial recognition, the grant is recognized in the statement of income, then in subsequent periods the Company's management is required to evaluate whether the payment of royalties to the OCS is considered to be more likely than not.

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 about technological and economic feasibility.

The Company's management believes that as at December 31, 2015, the above conditions were not met; 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 Company is exposed to exchange rate risks arising from exposure to various currencies, primarily the U.S. dollar. The exchange rate risk is due to future commercial transactions and assets or liabilities denominated in foreign currency.

On December 31, 2015, if the Company's Functional Currency had depreciated by 5% against the U.S. dollar, and if all the other variables had remained the constant, the post-tax loss for the year would have been lower by NIS 226 thousand (December 31, 2014, NIS 220 thousand), mainly due to losses from exchange rate differences for translation of cash balances, receivables and trade payables.

B) Liquidity risk

The Company has not yet generated 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. See also note 1A.

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 minimize the cost of capital.

NOTE 5 – CASH AND CASH EQUIVALENTS

	December 31	
	2014	2015
	NIS in thousands	
Breakdown by currency:		
NIS	6,563	1,783
In foreign currency (mainly USD)	4,499	3,534
	11,062	5,317

NOTE 6 –RECEIVABLES

	December 31	
	2014	2015
	NIS in thousands	
Value added tax	227	330
Receivables for participation in R&D expenses	1,122	1,435
Prepaid expenses	164	1,412
Other	35	64
	1,548	3,241

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, 2015 for receivables that are financial assets is their fair value. The Company does not hold any collateral for these receivables.

NOTE 7 – PROPERTY AND EQUIPMENT

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

	Cost				Accumulated depreciation				
	Carrying amount at beginning of year	Additions	Disposals	Carrying amount at end of year	Carrying amount at beginning of year	Additions	Disposals	Carrying amount at end of year	Depreciated balance as at December 31, 2014
	NIS in thousands				NIS in thousands				NIS in 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 equipment and accumulated depreciation, by principal groups, and the movements therein in 2015:

	Cost				Accumulated depreciation				
	Carrying amount at beginning of year	Additions	Disposals	Carrying amount at end of year	Carrying amount at beginning of year	Additions	Disposals	Carrying amount at end of year	Depreciated balance as at December 31, 2015
	NIS in thousands				NIS in thousands				NIS in thousands
Computer equipment	598	64		662	520	49		569	93
Office furniture	438	58		496	161	26		187	309
Laboratory equipment	3,983	1,200		5,183	3,371	355		3,726	1,457
Greenhouse equipment	2,982			2,982	2,199	260		2,459	523
Leasehold improvements	976	67		1,043	719	94		813	230
	8,977	1,389		10,366	6,970	784		7,754	2,612

NOTE 8 – INTANGIBLE ASSETS

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

	Cost		Accumulated depreciation			
	Carrying amount at beginning of year	Carrying amount at end of year	Carrying amount at beginning of year	Additions	Carrying amount at end of year	Depreciated balance as at December 31, 2014
	NIS in thousands		NIS in thousands			NIS in thousands
Software	104	104	88	11	99	5
IPR&D	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 2015:

	Cost		Accumulated depreciation			
	Carrying amount at beginning of year	Carrying amount at end of year	Carrying amount at beginning of year	Additions	Carrying amount at end of year	Depreciated balance as at December 31, 2015
	NIS in thousands		NIS in thousands			NIS in thousands
Software	104	104	99	4	103	1
IPR&D	1,720	1,720				1,720
	1,824	1,824	99	4	103	1,721

NOTE 9 – INCOME TAX

A. Taxation of the Company and its subsidiary

1) 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%, in 2014 and 2015 is 26.5%, and in 2016 and thereafter is 25%.

NOTE 9 - INCOME TAX (CONTD.)

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, 2015 and 2014 amounted to approximately NIS 7.8 million and NIS 5.9 million, respectively.

The carry-forward losses of CollPlant Ltd. (without capital losses) as at December 31, 2015 and 2014 amounted to approximately NIS 110 million and NIS 100.8 million, respectively.

The Company did not recognize deferred taxes on the losses as it is not probable that the differences will be realized in the foreseeable future.

C. Tax assessments

In accordance with the Income Tax Ordinance, tax assessments filed by the Company and its subsidiary up to 2011 are considered final.

D. Value added tax

The Company and its subsidiary are registered as authorized dealers for VAT purposes.

NOTE 10 - ACCOUNTS PAYABLE

	December 31	
	2014	2015
	NIS in thousands	
A. Trade payables		
Breakdown by currency:		
NIS	1,546	2,117
In foreign currency (mainly USD)	96	379
	1,642	2,496
B. Other payables:		
Employees and institutions for employees	667	732
Provisions for vacation and others	338	522
	1,005	1,254

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

NOTE 11 – RETIREMENT BENEFIT OBLIGATION

The amount recognized as an expense for defined contribution plans in 2015, 2014 and 2013 is NIS 1,159 thousand, NIS 958 thousand and NIS 855 thousands, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Agreements:

1) Operating lease agreements:

a) On 2015, an agreement was signed to extend the lease, which commenced in June 2008, of the Company's labs and offices. The lease ends on August 18, 2017, and the monthly rent amounts to NIS 54 thousand.

As collateral for the lease agreement, a restricted deposit was pledged in favor of the property owner. The balance of the restricted deposit as at December 31, 2015 amounts to NIS 565 thousand. The deposit is classified as a non-current asset.

b) In April 2007, CollPlant signed an agreement with a third party for lease of land in Yesod Hama'ala. The lease was for a three years period, with an option for renewal every year for up to another seven years. The Company extends the agreement annually in accordance with the terms of the option for renewal. The annual rent amount to NIS 33 thousands.

2) Commitment to pay royalties to the Government of Israel

The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants through the OCS. At time the grants were received, successful development of the related project was not assumed. In the case of failure of the project that was partly financed by the Government of Israel, the Company is not obligated to pay any such royalties. Under the terms of Company’s funding from the Israeli Government, royalties of 3.5% are payable on sales of products developed from projects so funded up to 100% of the amount of the grant received by the Company (dollar linked) with the addition of an annual interest based on Libor. The Company's management believes that, as at December 31, 2015, the payment of royalties to the OCS is not considered to be more likely than not. Therefore, a liability is not included in the Company's financial statements. As of December 31, 2015, the maximum royalty amount that would be payable by the Company, before the additional Libor interest, is approximately NIS 30 million (assuming 100% of the funds are payable).

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)

B. Development agreements with pharmaceutical and Orthobiologics companies

On November 17, 2010, CollPlant and Pfizer Inc. ("Pfizer") signed an agreement for joint development of prototype products for the treatment of orthopedic problems. The agreement refers, among other things, to the allocation of the rights of the project outcomes. In accordance with the agreement, Pfizer paid CollPlant immaterial amounts for the development of prototypes.

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 that contains Pfizer's therapeutic proteins and compounds based on CollPlant's recombinant human collagen (rhCollagen) ("the Product").

In accordance with the Development Agreement, the development plan was divided into two periods over a total period of three years, Pfizer was granted an exclusive right, limited in time, to negotiate the continuation of development and commercialization of the Product with CollPlant.

To the best of the Company's knowledge, based partially on public sources, in July 2013, Pfizer signed an agreement with a U.S. based company ("the U.S. Company"), which specializes in orthobiologics, whereby Pfizer granted the U.S. Company an exclusive, global license for the portfolio of projects related to Pfizer's bone morphogenetic protein ("rhBMP-2"). Since July 2013 the Company is in joint development with the U.S. Company for the Product, instead of the cooperation with Pfizer, which expired during 2014.

On July 9, 2015, the Company signed a non-binding term sheet with the U.S. Company. According to the term sheet, the US Company will make payments to the Company for the full development plan. In addition and subject to signing a binding agreement and achievement of milestones, the U.S. Company will make payments for the license, including to set up a production facility to produce collagen and the medical product, payments for achieving regulatory milestones, and royalties (single digit percentage) for worldwide sales.

The Company believes that the work and negotiations between the parties will continue over the coming few months, and if negotiations are successful, the Company believes that a definitive agreement will be signed with the U.S. Company. However, there is no assurance that the negotiations between the parties will culminate in a binding agreement, as well as what the final terms of the agreement will be.

C. Research grants from external sources

On August 17, 2010, a consortium, including CollPlant, received additional funding from the Program. The objective of this research is to developing hernia meshes using human recombinant collagen. The total funding for CollPlant in this research program amounts to EUR 274 thousand. As at December 31, 2015, proceeds amounting to EUR 235 thousand were received. The amounts received are offset against the Company's R&D expenses. The program has ended in April 2015.

NOTE 13 – EQUITY

A. Ordinary shares and warrants:

1) **Composition**

	Number of shares		
	Registered	**Issued and paid up ****	
	December 31	**December 31**	
	2015 and 2014	**2014**	**2015**
Ordinary shares of par value NIS 0.01 *	15,000,000,000	241,392,352	266,435,397

	Amount in NIS		
	Registered	**Issued and paid up**	
	December 31	**December 31**	
	2015 and 2014	**2014**	**2015**
Ordinary shares of par value NIS 0.01 *	15,000,000	2,413,923	2,664,354

* Traded on the Tel Aviv Stock Exchange.
On March 4, 2015, the Company announced that its ADR level 1 program became effective in the United States. Each ADR comprises of 100 ordinary shares, traded over the counter (OTC) in the United States, under the symbol CQPTY.

** Not including 2,761,384 shares held by the Company. These shares are considered to be dormant.

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 warrants expired without exercise.

4) In October 2013, the Company signed an investment agreement, according to which $2.5 million was invested in the Company in exchange for 16,856,173 ordinary shares (the issue expenses amounted to $190 thousand).

5) In December 2013, the Company raised a gross amount of NIS 21.3 million for the issuance of 68,313,000 ordinary shares and 68,313,000 Series F warrants for ordinary shares of the Company at an exercise price of NIS 0.70 per option, for three years. The issuance expenses amounted to NIS 1.96 million. The Company also granted 6,831,300 Series F warrants to underwriters. Series F warrants are exercisable up to December 31, 2016, with an exercise price of NIS 0.7 per share.

6) On July 1, 2015 the Company completed raising of NIS 11.3 million, gross (the issue costs amounted to NIS 1.3 million) in a non-uniform offering to institutional investors. In consideration, the Company issued 24,951,000 ordinary shares of the Company of NIS 0.01 par value each, 8,623,000 Series G options at an exercise price of NIS 0.80 per option, for three years and 3,852,000 Series H options at an exercise price of NIS 0.85 per option, for three years. Each option is exercisable for one ordinary share of the Company of par value NIS 0.01. In addition, in accordance with the terms of the broker agreement, the Company issued 673,284 Series G options and 300,764 Series H options for the transaction broker, under the same terms as above.

7) On February 2, 2016, the Company sucssesfuly raised NIS 8.2 million (issuing costs amounted to NIS 0.7 million), based on a signed memorandum of understanding with two foreign investors,

and public offering on TASE. In return, the Company issue a total of 17,237,710 ordinary shares of the Company , 12,930,505 options series I, for ordinary shares of the Company at an exercise price of NIS 0.80 per option, for three years and, 8,618,855 options series J, for ordinary shares of the Company at an exercise price of NIS 0.575 per option, for six months. In addition, in accordance with the terms of the broker agreement, the Company issued 814,520 Series I options for the transaction broker, under the same terms as above.

B. Share-based payments

In accordance with an option plan for employees and consultants ("the Option Plan"), as amended from time to time, employees and consultants of the Company, will be granted options, each exercisable into one ordinary share of the Company of NIS 0.01. 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. Grants to employees are made in accordance with the Option 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.

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

1) On May 29, 2013, options to purchase 1,268,487 ordinary shares 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. On July 4, 2013, options to purchase 270,000 ordinary shares were granted to two employees, including an officer who is not the CEO and/or a director. Total number of options granted in 2013 accumulated to 1,892,664.

   480,783 options included in the above 2013 grants vested over one year. The exercise price of each option is NIS 0.3 (unlinked). The fair value of the options at the grant date was NIS 34 thousand.

   1,411,881 options included in the above 2013 grants will vest over a four-year period. One quarter vests one year after the grant date, and the balance vests in equal parts at the end of each subsequent quarter. The exercise price of each option is NIS 0.44 (unlinked). The fair value of the options at the grant date was NIS 180 thousand.

   The fair value of each option, calculated according to the Black-Scholes formula, is between NIS 0.07 and NIS 0.13. This value is based on the following assumptions: expected dividend of 0%, expected volatility of 85%, risk-free interest rate of 1.85%, and period up to exercise of 4 years.

2) On September 8, 2014, the board of directors approved the grant of options to purchase 400,000 ordinary shares to the VP R&D. 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 exercise price of each option is NIS 0.25 (unlinked).

   The fair value of the options at the grant date was NIS 42 thousand.

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

3) On October 29, 2014, the Company's general meeting approved a grant for the chairman of the board of directors. The grant is for options to purchase 7,241,770 ordinary shares for an exercise price of NIS 0.26 per share. The options will vest over three years. One third will vest one year

NOTE 13 – EQUITY (CONTD.)

after grant date, and the balance will vest in equal installments at the end of each subsequent quarter. The fair value of the options at the grant date was NIS 340 thousand.

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

4) On March 22, 2015, the Board of Directors approved the grant of options to purchase 10,000,000 ordinary shares to its Director and Chief Scientific Officer. The options will vest over 5 years. One fifth will vest one year after the grant date, and the balance will vest in equal parts at the end of each subsequent quarter. The exercise price of each option is NIS 0.60.
On July 30, 2015 the Company's general meeting approved the options grant. The fair value of the options at the date of general meeting approval was NIS 4,758 thousand.
The fair value of each option, calculated according to the Black-Scholes formula, amounts to NIS 0.48. This value is based on the following assumptions: expected dividend of 0%, expected volatility of 56.49%, risk-free interest rate of 2%, and period to exercise of 5 years.

5) On May 18, 2015, the Board of Directors approved the grant of options to purchase 5,670,000 ordinary shares to the CEO of the company. The options will vest over 4 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 exercise price of each option is NIS 0.60.
On July 30, 2015 the Company's general meeting approved the options grant. The fair value of the options at the date of general meeting approval was NIS 2,698 thousand.
The fair value of each option, calculated according to the Black-Scholes formula, amounts to NIS 0.48. This value is based on the following assumptions: expected dividend of 0%, expected volatility of 56.49%, risk-free interest rate of 2%, and period to exercise of 4 years.

6) On May 18, 2015, options to purchase 7,450,000 ordinary shares were granted to employees and officers of the Company (who are not the CEO and/or a director).
The options will vest over 4 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 exercise price of each option is NIS 0.60. The fair value of the options at the grant date was NIS 1,597 thousand.
The fair value of each option, calculated according to the Black-Scholes formula, amounts to NIS 0.22. This value is based on the following assumptions: expected dividend of 0%, expected volatility of 56.18%, risk-free interest rate of 2%, and period to exercise of 4 years.

7) On May 18, 2015, options to purchase 1,000,000 ordinary shares were granted to a consultant of the Company. The options will vest according to certain milestones. The exercise price of each option is NIS 0.60. The fair value of the options at the grant date was NIS 240 thousand.

8) On May 21, 2015, the Board of Directors approved the grant of options to purchase a total of 2,680,000 ordinary shares to four Board members, 670,000 options to each. The options will vest over 4 years. Half of the amount will vest two years after the date of the Board approval, and the balance will vest in equal parts at the end of each subsequent month. The exercise price of each option is NIS 0.60.
On July 30, 2015 the Company's general meeting approved the options grant. The fair value of the options at the date of general meeting approval was NIS 1,275 thousand.
The fair value of each option, calculated according to the Black-Scholes formula, amounts to NIS 0.48. This value is based on the following assumptions: expected dividend of 0%, expected volatility of 56.49%, risk-free interest rate of 2%, and period to exercise of 4 years.

NOTE 13 – EQUITY (CONTD.)

9) On August 31, 2015, options to purchase 1,300,000 ordinary shares of the Company were granted to two new officers of the Company (who are not the CEO and/or a director).
The options will vest over 4 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 exercise price of each option is NIS 0.85. The fair value of the options at the grant date was NIS 331 thousand.
The fair value of each option, calculated according to the Black-Scholes formula, amounts to NIS 0.25. This value is based on the following assumptions: expected dividend of 0%, expected volatility of 56.36%, risk-free interest rate of 2%, and period to exercise of 4 years.

Exercise of options

10) On January 9, 2014, the Company's CEO exercised a total of options to purchase 4,517,626 ordinary shares at an exercise price of NIS 0.01 per share, for a total consideration of NIS 45 thousand.

11) On June 24 2014, 92,045 options were exercised to ordinary shares at an exercise price of NIS 0.30 per share, for a total consideration of NIS 27 thousand.

Changes in number of options and weighted average exercise prices are as follows:

	Year ended December 31, 2014		Year ended December 31, 2015	
	No. of options	**Average weighted exercise price**	**No. of options**	**Average weighted exercise price**
Outstanding at the beginning of the year	15,535,762	0.57	17,963,346	0.56
Granted	7,641,770	0.26	28,100,000	0.61
Expired		1.35	(318,894)	0.44
Forfeited	(696,560)	0.44-1.39	(119,748)	0.84
Exercised	(4,517,626)	0.01	(92,045)	0.3
Outstanding at the end of the period	17,963,346	0.56	45,532,659	0.59
Exercisable at the end of the period	9,042,670	0.61	11,700,665	0.49

The following is information about the exercise price and remaining contractual life of outstanding options:

December 31, 2014			December 31, 2015		
No. of outstanding options	**Exercise price range**	**Weighted average of remaining contractual life**	**No. of outstanding options**	**Exercise price range**	**Weighted average of remaining contractual life**
17,963,346	0.26-1.39	7.32	45,532,659	0.26-1.39	8.28

The expenses recognized in the Company's statements of income in 2015 and 2014 for options granted to employees amounted to NIS 4,081 thousand and 205 thousand, respectively.

NOTE 14 – RESEARCH AND DEVELOPMENT EXPENSES, NET

	Year ended December 31	
	2014	**2015**
	NIS in thousands	
Payroll and related expenses	6,246	7,656
Share-based payments	137	2,464
Subcontractors and consultants	4,429	7,532
Consumables and materials	659	1,035
Depreciation	750	763
Rent and maintenance	2,056	2,448
Other	602	1,021
	14,879	22,919
Less:		
Participation in R&D expenses, see Notes 12B	(1,554)	(6,428)
OCS participation in R&D expenses, see Note 12A(2)	(3,591)	(4,627)
	(9,734)	(11,864)

NOTE 15 – GENERAL, ADMINISTRATIVE AND MARKETING EXPENSES

	Year ended December 31	
	2014	**2015**
	NIS in thousands	
Payroll and related expenses	1,803	1,418
Share-based payments	68	1,617
Directors' salary and insurance	590	740
Rent and office maintenance	314	407
Professional services	859	2,248
Depreciation	52	25
Other	220	495
	3,906	6,950

NOTE 16 – FINANCING EXPENSES (INCOME), NET

	Year ended December 31	
	2014	**2015**
	NIS in thousands	
Financing expenses:		
Bank fees	25	51
Foreign exchange losses, net		
Total financing expenses	25	51
Financing income:		
Interest income on cash equivalents and deposits	35	-
Foreign exchange gains, net	607	215
Total financing income	642	215
	(617)	(164)

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 45,532,659 options for employees and service providers, 88,337,260 Series F warrants, 9,296,284 Series G warrants and Series H warrants, since their effect is anti-dilutive.

NOTE 18 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

"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 to related parties

	Year ended December 31	
	2014	**2015**
	NIS in thousands	
CEO's salary *	1,209	1,804
Of which share-based payments	-	963
Remuneration of directors **	893	3,248
Of which share-based payments	44	2,190

* 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.

** Including the effect of an agreement with one of the Company shareholders (who also serves as a director of the Company as from May 20, 2010) for research consulting services, in consideration of a monthly amount of NIS 32,000.

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

B. Balances with related parties:

	Year ended December 31	
	2014	**2015**
	NIS in thousands	
For payroll and related expenses, the balance is included among other accounts payable	(339)	(200)

C. Benefits for key officers

Compensation for the CFO, VP Research and Development, COO (up to May 2013), Business development manager and VP Quality Assurance, defined as key management personnel for their services provided to the Company, is as follows:

	Year ended December 31	
	2014	**2015**
	NIS in thousands	
Salary and other short-term benefits	1,776	2,545
Share-based compensation	56	500
	1,832	3,045
Number of key managers	3	5

NOTE 19 - SUBSEQUENT EVENTS

a. On February 23, 2016, the Company announced that it has received a CE Mark for marketing in Europe for Vergenix™FG, a flowable gel intended to treat chronic and acute wounds. The CE MARK was received following the Company's announcement on November 26, 2015, that it has successfully completed a clinical trial for the Vergenix™FG.

b. On February 4, 2016, the Company announced positive final clinical trial results for Vergenix™STR, intended for the treatment of tendinopathy. The Company also announced that the Vergenix™STR Technical File for a CE MARK was submitted in December 2015.