CollPlant Holdings Ltd.

Annual Report 2016

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Contents

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, 2016 and 2015 and the consolidated statements of comprehensive loss, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. 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, 2016 and 2015 and the results of their operations and cash flows for each of the three years in the period ended December 31, 2016, 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 28, 2017

Kesselman & Kesselman
Certified Public Accountants (lsr.)
A member firm of PricewaterhouseCoopers International Limited

CollPlant Holdings Ltd.

Consolidated Statements of Financial Position

	Note	December 31 2016	December 31 2015
		NIS thousands	
Assets			
Current assets:			
Cash and cash equivalents	5	3,797	5,317
Receivables	6	3,785	3,241
Inventory	2(I)	487	
		8,069	8,558
Non-current assets			
Restricted deposit	5	557	565
Long term-receivables		168	73
Property and equipment, net	7	4,008	2,612
Intangible assets, net	8	1,631	1,721
		6,364	4,971
Total assets		14,433	13,529
Liabilities and equity			
Current liabilities			
Accounts payable	10		
Trade payables		5,189	2,496
Other		1,617	1,254
		6,806	3,750
Non-current liabilities			
Royalties to the OCS	12(A)(2)	2,181	
Long-term payables		286	
Note 12 - Agreements			
		2,467	
Total liabilities		9,273	3,750
Equity:	13		
Ordinary shares		3,207	2,665
Additional paid in capital		159,864	140,704
Accumulated deficit		(157,911)	(133,590)
Total equity		5,160	9,779
Total liabilities and equity		14,433	13,529

Adi Goldin	Yehiel Tal	Eran Rotem
Chairman of the board of directors	**CEO**	**CFO**

The interim financial statements were approved by the Company's board of directors on March 28, 2017

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

Consolidated Statements of Comprehensive Loss

	Note	Year ended December 31		
		2016	2015	2014
		NIS thousands		
Revenue		292		
Research and development expenses:	14			
Research and development expenses		29,200	22,919	14,879
Participation in research and development expenses, net		(12,411)	(11,055)	(5,145)
Research and development expenses, net		16,789	11,864	9,734
General, administrative and marketing expenses	15	11,048	6,950	3,906
Operating loss		27,545	18,814	13,640
Financial income	16	(93)	(215)	642
Financial expenses	16	441	51	25
Financial expenses (income), net		348	(164)	(617)
Comprehensive loss for the year		27,893	18,650	13,023
Basic and diluted loss per ordinary share (NIS)	17	0.28	0.22*	0.16*
Weighted average ordinary shares outstanding - basic and fully diluted	17	100,624,945	84,672,767*	80,426,986*

* After retrospective adjustment following capital consolidation, see Note 13A.

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

Consolidated Statements of Changes in Equity

	Ordinary shares	Additional paid in capital	Accumulated deficit	Total equity
	NIS thousands			
Balance as at January 1, 2014	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	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
Movement in 2016:				
Comprehensive loss for the year			(27,893)	(27,893)
Share-based compensation to employees and consultants			3,572	3,572
Proceeds from issue of shares and options, less issue expenses of NIS 1,327 thousand	510	17,995		18,505
Issue of shares, See Note 12(A)(1)(C)	32	1,165		1,197
Balance as at December 31, 2016	3,207	159,864	(157,911)	5,160

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

(contd.) -1

Consolidated Statements of Cash Flows

	Year ended December 31		
	2016	2015	2014
	NIS thousands		
Cash flows from operating activities:			
Net cash used in operations (see Appendix A)	(19,357)	(14,498)	(12,993)
Interest received		1	35
Net cash used in operating activities	(19,357)	(14,497)	(12,958)
Cash flows from investing activities:			
Purchase of property and equipment	(492)	(1,389)	(336)
Change in restricted deposit			(61)
Net cash used in investing activities	(492)	(1,389)	(397)
Cash flows from financing activities:			
Proceeds from issue of shares and options, less issue expenses	18,505	10,010	
Exercise of options into shares		27	45
Equipment purchased in unusual credit terms	(19)		
Net cash provided by financing activities	18,486	10,037	45
Decrease in cash and cash equivalents	(1,363)	(5,849)	(13,310)
Cash and cash equivalents at the beginning of the year:	5,317	11,062	23,777
Exchange differences on cash and cash equivalents	(157)	104	595
Cash and cash equivalents at the end of the year	3,797	5,317	11,062

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

(End) - 2

Consolidated Statements of Cash Flows (Contd.)

	Year ended December 31		
	2016	2015	2014
	NIS thousands		
Appendix to the statement of cash flows			
A. Net cash used in operating activities:			
Loss for the year	(27,893)	(18,650)	(13,023)
Adjustments for:			
Depreciation and amortization	864	788	802
Share-based compensation to employees and consultants	3,572	4,081	205
Exchange differences on cash and cash equivalents	157	(104)	(595)
Interest received		(1)	
Exchange differences on restricted cash	8	(1)	(35)
	(23,292)	(13,887)	(12,646)
Changes in operating asset and liability items:			
Decrease (increase) in other receivables	(544)	(1,693)	180
Decrease (increase) in other long-term receivables	(95)	(21)	15
Increase (decrease) in trade payables and other long-term payables	2,498	854	(214)
Increase (decrease) in other payables	363	249	(328)
Increase in inventory	(487)		
Increase in long-term liability to the OCS	2,181		
	3,916	(611)	(347)
Net cash used in activities	(19,376)	(14,498)	(12,993)

B. Non-cash investing and financing activities			
Acquisition of fixed assets against issue of shares and borrowings See Note 12(A)(1)(C).	1,678		

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

NOTE 1 – GENERAL

A. CollPlant Holdings Ltd. is a biotechnology company focused on regenerative medicine. The Company operates through CollPlant Ltd., a wholly-owned subsidiary focused on research, development, manufacture and marketing of medical products for tissue repair (CollPlant Holdings Limited and CollPlant Ltd. will be referred to hereinafter as "the Company" or "CollPlant", respectively). The Company's products are based on recombinant human collagen produced from genetically-modified tobacco plants, and the Company focuses on orthopedics and advanced wound care.

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

As at December 31, 2016, the Company generated insignificant amounts of income and up to the reporting date, it has accumulated losses of NIS 158 million. The Company plans to continue research and development, manufacture and marketing in the coming year, supported by funding sources such as the Company's cash balances, an investment raised by the Company in February 2017 from investors as set out in Note 13A(10) below, and government grants. Management believes that these funding sources allow the Company's operations to continue at least until the course of the third quarter of 2017.

The Company's plans for 2017 include focusing on orthopedics, including soft and hard tissue repair and advanced wound healing. The plan includes the support of European sales of the Company's two products: a syringe for treating chronic wounds and a product for treatment of tendinopathy, which received both a CE approval during 2016,

The Company is taking steps to raise additional financing sources to allow the continuation of operations beyond this period. These sources include raising funds from private investors and/or institutional investors in Israel and overseas, or from the public. 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.

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, 2016	Percentage of consolidated financial statements
	NIS thousands	
Cash and cash equivalents	1,380	36%
Assets, with the exception of cash and cash equivalents	3,508	33%
Current liabilities	(1,990)	29%

	Year ended December 31, 2016	Percentage of consolidated financial statements
	NIS thousands	
Operating expenses	4,832	17%
Net cash used in operating activities	(227)	3%

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis of presentation of the financial statements

The Company's financial statements as at December 31, 2016 and December 31, 2015 and for each of the three years in the period ended December 31, 2016, comply with International Financial Reporting Standards (IFRS), which are the standards and interpretations issued by the International Accounting Standard Board, and include the additional disclosure required in accordance with the Israel Securities Regulations (Annual Financial Statements), 2010.

1) 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.

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

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.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

C. Translation of foreign currency balances 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 dates of transaction. Exchange differences resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the 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

All property and equipment are first included in accordance with the acquisition cost. The cost of an item of property 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 and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Amortization and impairment for the item of property 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:

	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 using the straight-line method 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).

Gains or losses on disposals are determined by comparing net proceeds with the 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")

IPR&D was created as part of the incorporation of CollPlant. CollPlant developers transferred their initial know-how in return for allocation of shares issued on the incorporation date of 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.

In 2010, as part of a merger, the Company acquired all CollPlant's shares in return for the allotment of the Company's shares to the former shareholders of CollPlant.

Up to December 31, 2015, this asset was not systematically amortized and the Company assessed impairment once a year. The assessment is carried out more frequently if there are indications of impairment. As from 2016, know-how is amortized on a straight-line basis until the end of the period of the patent for the know-how.

For information about impairment of non-monetary see Note F.

2) Software

Acquired software licenses are capitalized on the basis of the cost incurred to acquire and implement the specific software. These costs are amortized on a straight-line basis over the estimated useful life of licenses (three years).

3) Research and development (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 at December 31, 2016, 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.

F. Impairment of non-monetary assets

Assets that have an indefinite useful life, such as intangible assets not yet available for use, are not subject to amortization and are tested annually for impairment.

All non-monetary assets 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 costs 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). Impaired non-financial assets, other than goodwill, are reviewed for possible reversal of the impairment at each reporting date.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 Israeli Office of the Chief Scientist in the Ministry of Industry, Trade and Labor ("the OCS") by way of participation in the Company's research and development fall within the scope of "forgivable loans" as set out in IAS 20, Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20 ").

OCS grants received subsequent to January 1, 2009 are recognized and measured in accordance with IAS 39. If at the approval date of the OCS grant, ("the Approval Date"), the Company's management concludes that there is no reasonable assurance that the OCS Grant will not have to be repaid, the Company recognizes a financial liability at that date, accounted for in accordance with IAS 39 for financial liabilities measured at amortized cost. The difference between the OCS Grant 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 decrease in research and development expenses.

If, on the Approval Date, management believes that there is reasonable assurance that the Grant Received will not be repaid, at that date, the amount of the grant is recognized in profit or loss as a decrease in 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 have to be repaid, 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 OCS grants received up to and including December 31, 2008, if on the Approval Date, the Company concluded that there is no reasonable assurance that the OCS Grant will not have to be repaid, 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 Approval Date, the Company's management concludes that there is reasonable assurance that the Grant Received will not have to be repaid, 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 OCS, the Company recognizes a provision against profit or loss, which is measured in accordance with the guidelines in IAS 37.

H. Cash and cash equivalents

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

I. Inventory

Inventory are measured at the lower of cost and net realizable value.

The cost of inventories is based on the first-in first-out (FIFO) principle. In the case of purchased goods and work in process, costs include design, raw materials, direct labor, other direct costs and fixed production overheads (based on the normal operating capacity of the production facilities).

Net realizable value is the estimated selling price in the ordinary course of business, less variable attributable selling expenses.

J. 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.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

K. 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.

L. 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.

M. Employee benefits:

1) Liability for severance pay and pension

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 compensation and 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) 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.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

N. Revenue recognition

The Company's revenues are measured at the fair value of the consideration received or receivable for sales in the ordinary course of business. The Company recognizes revenue when revenues can be measured reliably and it is likely that there will be an inflow of financial benefits associated with the transaction. Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the Company retains neither effective control over the goods or continuing managerial involvement.

O. 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. For employee bonuses, the fair value of the bonus was based on the fair value of the granted options. For options granted to parties other than employees, the fair value of the grant is based on the value of services received from them.

Non-market vesting conditions are included in the assumptions used to estimate the number of options expected to vest, but the total recognized expenses are not included when measuring the fair value of the granted instruments 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 additional paid in capital.

P. 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).

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Q. New standards and interpretations not yet adopted:

1) IFRS 9 "Financial Instruments" (“IFRS 9”)

IFRS 9 addresses classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was published in July 2014. IFRS 9 replaces the current guidance in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") regarding the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories or financial assets: amortized cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss. 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 of the equity instrument in OCI, without reclassification to profit or loss (recycling).

IFRS 9 presents a new expected credit loss model for calculating impairment loss of financial assets, which replaces the incurred loss impairment model used in IAS 39.

There were no changes to the classification and measurement of financial liabilities, except for the recognition in OCI of changes resulting from its own credit risk, in liabilities designated at fair value through profit or loss

IFRS 15 is applicable retrospectively as from annual periods beginning on or after January 1, 2018. In accordance with IFRS 9, early application is possible. The Company is examining the anticipated effect of IFRS 9 on its consolidated financial statements, and in its opinion the effect on the financial statements will be immaterial

2) IFRS 16 "Leases" ("IFRS 16")

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17, Leases ("IAS 17"). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a “right of use asset ”in all lease contracts (except for the following exemption), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short term leases or when the underlying asset has a low value.

For lessors, the guidance in IFRS 16 is almost identical to that in IAS 17, such that the lessors will continue to classify leases as capital leases or financing leases, similar to the guidance in IAS 17.

IFRS 16 also changes the definition of "a lease" and the manner of assessing whether a contract contains a lease.

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the relief specified in the transitional provisions of IFRS 16. Under the provisions of IFRS 16, early adoption is permitted only if IFRS 15 has also been applied. The Company is assessing the expected impact of IFRS 16 on its financial statements.

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 estimates and assumptions

The Company makes estimates and assumptions with respect to the future. By nature, accounting estimates are rarely identical to actual results. Estimates and assumptions that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in the next financial year are 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. See also the reference in Note 2E(1).

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

1) Grants from the OCS

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, the Company's management is required to evaluate whether there is reasonable assurance of the project's success and of payment of royalties to the OCS. The Company's management believes that as of December 31, 2016, there is reasonable assurance that royalties will be paid to the OCS and that the present value of the royalties to be paid amounts to NIS 2.2 million, following the Company's recognition of a liability in the 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 about 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 IPR&Dresulting from the development. The Company's management believes that as at December 31, 2016, the above conditions were not met, therefore development costs were not capitalized.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

A. 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.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTD.)

A. Financial risk management:

1) Financial risk factors

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, 2016, 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 126 thousand (December 31, 2015, NIS 226 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 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. The Company's management believes that its cash balances allow it to realize its development plans until the third quarter of 2017. The work plan can be changed and adjusted in accordance with the Company's liquidity. See 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. See Note 1A.

NOTE 5 –CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
	NIS thousands	
Breakdown by currency:		
NIS	2,473	1,783
In foreign currency (mainly USD)	1,324	3,534
	3,797	5,317

As at December 31, 2016, the Company has another cash deposit of NIS 557 thousand (as of December 31, 2015, NIS 565 thousand). This is a restricted deposit serving as collateral for the lease. The deposit is recognized in the statement of financial position under non-current assets.

NOTE 6 – RECEIVABLES

	December 31	
	2016	2015
	NIS thousands	
Value added tax	624	330
Receivables for participation in R&D expenses	2,998	1,435
Prepaid expenses	131	1,412
Other	32	64
	3,785	3,241

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, 2016 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 EQUIPMENT

Composition of property and equipment and accumulated depreciation, by principal groups, and the movements therein in 2016:

	Costs			Accumulated depreciation			
	Carrying amount at the beginning of the year	Additions in the year	Carrying amount at the end of year	Carrying amount at the beginning of the year	Additions in the year	Carrying amount at the end of year	Depreciated balance at December 31 2016
	NIS thousands			NIS thousands			NIS thousands
Computer equipment	662	40	702	569	54	623	79
Office furniture	496	4	500	187	27	214	286
Laboratory equipment	5,183	284	5,467	3,726	400	4,126	1,341
Greenhouse equipment	2,982		2,982	2,459	254	2,713	269
Leasehold improvements	1,043	1,842	2,885	813	39	852	2,033
	10,366	2,170	12,536	7,754	774	8,528	4,008

* Regarding acquired equipment and clean rooms in exchange for shares and credit, See Note 12A(1)(c)

Composition of property and equipment and accumulated depreciation, by principal groups, and the movements therein in 2015:

	Costs			Accumulated depreciation			
	Carrying amount at the beginning of the year	Additions in the year	Carrying amount at the end of year	Carrying amount at the beginning of the year	Additions in the year	Carrying amount at the end of year	Depreciated balance at December 31, 2015
	NIS thousands			NIS thousands			NIS 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 2016:

	Costs		Accumulated amortization			
	Carrying amount at the beginning of the year	Carrying amount at the end of year	Carrying amount at the beginning of the year	Addition in the year	Carrying amount at the end of year	Amortized balance at December 31, 2016
		NIS thousands		NIS thousands		NIS thousands
Software	104	104	103	1	104	-
Expertise	1,720	1,720		89	89	1,631
	1,824	1,824	103	90	193	1,631

Composition of intangible assets and accumulated amortization, by principal groups, and the movements therein in 2015:

	Costs		Accumulated amortization			
	Carrying amount at the beginning of the year	Carrying amount at the end of year	Carrying amount at the beginning of the year	Addition in the year	Carrying amount at the end of year	Amortized at December 31, 2015
		NIS thousands		NIS thousands		NIS thousands
Software	104	104	99	4	103	1
Expertise	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:

Tax rates

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016, was published. The Law stipulates a reduction in the rate of corporate tax from 26.5% to 25%, effective as from the 2016 tax year.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in 2017 and 2018), 2016 was published. The Law stipulates a further reduction in the rate of corporate tax, from 25% to 23%. However, the Law establishes a temporary order by which the corporate tax rate in 2017 will be 24%. As a result, the corporate tax rate applicable in 2017 will be 24% and the corporate tax rate that will apply from 2018 onwards will be 23%. The changes in the above tax rates has no effect on the Company's financial statements.

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, 2016 and 2015 amount to NIS 12.7 million and NIS 7.8 million, respectively.

The subsidiary, CollPlant Ltd., has carry-forward losses amounting to NIS 131 million and NIS 117 million as at December 31, 2016 and 2015, respectively.

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

NOTE 9 - INCOME TAX (CONTD.)

C. Tax assessments

In general, by law, independent assessments filed by the Company and its subsidiary up to 2012 are considered 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 authorized dealers in Israel for VAT purposes.

NOTE 10 - ACCOUNTS PAYABLE

	December 31	
	2016	2015
	NIS thousands	
A. Trade payables		
Breakdown by currency:		
NIS	3,686	2,117
In foreign currency (mainly USD)	1,503	379
	5,189	2,496
B. Composition of other payables:		
Employees and institutions for employees	775	732
Provisions for vacation and others	842	522
	1,617	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

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 2016, 2015 and 2014 is NIS 1,558 thousand, NIS 1,159 thousand and NIS 958 thousand, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Agreements:

1) Operating lease agreements:

A) The Company has lease agreements for a laboratory and office space in Ness Ziona. After an extension, the lease agreements will expire on August 18, 2017.

The monthly rent amounts to NIS 54 thousand. As collateral for the lease agreement and to secure the evacuation of the property, a restricted deposit was pledged in favor of the property owner. The restricted deposit amounted to NIS 557 thousand after linkage in accordance with the terms of the agreement and is recognized in the statement of financial position under non-current assets. The company is in the process with the landlord to extend the lease agreement.

B) In April 2007, CollPlant signed an agreement with a third party for lease of land in Yessod Hama'ala. The lease period is for three years, 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 amounts to NIS 33 thousand. The Company is in the process with the landlord to extend the lease agreement for a period of five years.

C) On July 28, 2016, the Company signed a lease agreement for additional space designated for its development and production activities. The lease is for three years with an option to extend for four additional years, in return for a monthly payment of NIS 30 thousand. In addition, as part of the lease agreement, the Company acquired equipment and clean rooms for the Company’s operations for a total consideration (in terms of present value) in the amount of NIS 1,849 thousand. Out of the aforementioned total consideration of NIS 1,197 thousand was paid in exchange for 1,067,916 common shares of the Company issued and a total of 525 thousand will repaid in cash over the term of the lease.

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.

In accordance with the terms of this participation, royalties of 3% are payable on sales of products developed with Government participation in the first three years, from the date repayment begins, 3.5% on sales of products as from the fourth year, and up to 100% of the amount of the grant received by the Company, linked to the US dollar, with the addition of an annual interest at Libor rates.

Following three marketing agreements signed by the Company in 2016, the Company's current estimate is that royalties to the OCS and the present value of the royalties that will be paid amount to NIS 2,205 thousand. This amount was recognized as a liability in the statement of financial position (NIS 2,181 thousand under a long-term liability and the balance under current liabilities). As at December 31, 2016, the fair value of the liability is not materially different from its carrying amount. The maximum royalty amount that would be payable by the Company of future sales of products amounts to NIS 30.6 million thousand as at December 31, 2016 (before Libor interest).

B. Development agreements with pharmaceutical and orthobiologic companies:

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, the allocation of the rights of the project outcomes. In accordance with the agreement, Pfizer paid CollPlant immaterial 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 that contains Pfizer's therapeutic proteins and compounds based on CollPlant's recombinant human collagen (rhCollagen) ("the Product"). The Product is intended for the repair of compound fractures and both companies will own the Product.

In July 2013, Pfizer signed an agreement with Bioventus llc, a U.S. based company (“Bioventus”), which specializes in orthobiologics, whereby Pfizer granted Bioventus an exclusive, global license for the portfolio of projects related to Pfizer’s bone morphogenetic protein (“BMP”). Between July 2013 and February 2017, the Company and Bioventus developed a bioactive implant for spinal fusion and orthopedic trauma, instead of the cooperation with Pfizer, which came to an end.

On July 9, 2015, the Company signed a non-binding term sheet with Bioventus. According to the term sheet, Bioventus will make payments to the Company for the full development plan.

On March 1, 2017, Bioventus informed the Company that it had decided to discontinue the joint development with CollPlant and to complete product development at a subsidiary of Bioventus.

NOTE 13 – EQUITY

A. Ordinary shares and warrants:

1) Composition

	Number of shares		
	Registered	Issued and paid up **	
	December 31	December 31	
	2016 and 2015	2016	2015
Ordinary shares of par value NIS 0.03 *	500,000,000***	108,049,325	88,811,879***

	Amount in NIS		
	Registered	Issued and paid up	
	December 31	December 31	
	2016 and 2015	2016	2015
Ordinary shares of par value NIS 0.03 *	15,000,000	3,241,480	2,664,354

* Traded on the Tel Aviv Stock Exchange ("TASE") at a price of NIS 0.4 per ordinary share of NIS 0.03, as at December 31, 2016

** Not including 920,461 shares held by the Company

*** Retrospective presentation, after consolidation of capital.

NOTE 13 – EQUITY (CONTD.)

A. Share capital and options: (contd.)

2) The ordinary shares confer on their holders the right to vote and participate in shareholder meetings (with one vote for each NIS 0.03 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. In 2016, Series F and I expired without exercise.

4) On November 17, 2016, the general meeting of shareholders approved a reverse share split of the Company's registered share capital and issued and paid up share capital. Pursuant to the reverse split, each three ordinary shares of NIS 0.01 par value were converted into one ordinary share of NIS 0.03 par value of the Company.

Additionally, according to the share option plan of the Company, every three unlisted options that were allocated through private offers to directors, employees, consultants and officers under the option plan are exercisable into one ordinary share of the Company of NIS 0.03 par value. There will be no change in the exercise price of those options, however, the total exercise price per one share of NIS 0.03 par value will be the former exercise price for one share of NIS 0.01 par value multiplied by 3.

In addition, according to the terms of the marketable options of the Company, each three marketable options that the Company issued are exercisable into one ordinary share of the Company of NIS 0.03 par value. There will be no change in the exercise price of those options, however, the total exercise price per one share of NIS 0.03 par value will be the former exercise price for one share of NIS 0.01 par value multiplied by 3.

Following the reverse split, the Company retrospectively reflected the basic and diluted loss per share for the years ended December 31, 2015 and 2014, to reflect the change required in the Company's capital, on a retroactive basis.

In addition, all the amounts of shares presented in these consolidated financial statements are after retroactive application of the reverse split.

5) In March 2015, the Company completed the listing of American Depository Receipts level 1 (ADR1) on the OTCQX marketplace in the United States. This listing allows enhanced exposure of the Company to private and institutional foreign investors and investments in the Company's share capital. Each ADR comprises 100 ordinary shares of the Company, which is quoted over the counter (OTCQX) in the United States, under the symbol CQPTY.

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 for this amount, the Company issued 8,317,000 shares, 8,623,000 Series G warrants to purchase 2,874,333 * shares at an exercise price of NIS 0.80 per option for an exercise period of three years, and 3,852,000 Series H warrants to purchase 1,284,000* shares at an exercise price of NIS 0.85 per warrant for an exercise period of three years. 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.

*After retrospective update following capital consolidation.

7) On February 2, 2016, the Company completed a capital raise of NIS 8.2 million, gross, to two institutional investors and to the public (issue expenses amounted to NIS 643 thousand). In consideration, the Company issued 5,745,903 ordinary shares of the Company of NIS 0.03 par value each, 12,930,505 Series I warrants exercisable into 4,310,168 ordinary shares of the Company at an exercise price of NIS 0.80 per option, for three years, and 8,618,855 Series J warrants exercisable into 2,872,952 ordinary shares of the Company at an exercise price of NIS 0.575 per option, up to July 31, 2016. In addition, under the terms of the broker agreement, the Company issued to the Israeli broker 814,520 Series I warrants exercisable into 271,507 ordinary shares of the Company at an exercise price of NIS 0.80 per warrant, for three years. On July 31, 2016, 8,618,855 Series J warrants expired.

NOTE 13 – EQUITY (CONTD.)

A. Share capital and options: (contd.)

8) On June 9, 2016, the Company completed a capital raise of NIS 11.8 million in gross proceeds by way of a non-uniform offering to institutional investors and a uniform offer to the public (the issuance expenses amounted to NIS 684 thousand). In consideration, the Company issued 11,267,833 of its shares and 33,803,500 Series K warrants exercisable into 11,267,833 ordinary shares of the Company at an exercise price of NIS 0.60 per option, for three years. In addition, in consideration, the Company issued to the broker under the terms of the broker agreement, 2,728,000 Series K warrants exercisable into 909,333 ordinary shares of the Company at an exercise price of NIS 0.60 per option, for three years.

9) On July 28, 2016, the Company signed a lease agreement for additional space designated for its development and production activities. The lease is for three years with an option to extend for four additional years, in return for a monthly payment of NIS 30 thousand, including management fees. In addition, as part of the lease agreement, the Company acquired equipment and clean rooms for the Company's operations for NIS 1,849 thousand (present value). Of these proceeds, NIS 1,197 thousand was paid in exchange for 1,067,916 ordinary shares of the Company that were issued and a total of NIS 525 thousand will be paid in credit to be repaid in cash over the term of lease. See Note 12A(1)(c).

10) On February 12, 2017, the Company completed a capital raise of NIS 7.2 million in gross proceeds by way of a non-uniform offering to institutional investors and a uniform offer to the public (the issuance expenses amounted to NIS 391 thousand). In consideration, the Company issued 21,152,000 of its shares and 10,576,000 Series K warrants exercisable into 10,576,000 ordinary shares of the Company at an exercise price of NIS 0.36 per option, until June 13, 2017. In addition, in consideration, the Company issued to the broker under the terms of the broker agreement, 941,400 Series L warrants exercisable into 941,400 ordinary shares of the Company at an exercise price of NIS 0.36 per warrant, for three years.

B. Share-based payment:

1) On September 8, 2014, the board of directors approved the grant of 400,000 options to the vice president of research and development, exercisable into 133,333 shares of NIS 0.03 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 at the grant date is NIS 42 thousand. The exercise price of each option is NIS 0.25, unlinked. 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.

2) On October 29, 2014, the Company's general meeting approved the grant of 7,241,770 options to the chairman of the Board of Directors. The options are exercisable for 2,413,923 shares of NIS 0.03 par value, plus an exercise price of NIS 0.26 per option. 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 at 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.

3) On March 22, 2015, the Company's Board of Directors approved the grant of 10,000,000 options to a director and the founding scientist of the Company. The options are exercisable for 3,333,333 ordinary shares of NIS 0.03 par value, plus an exercise price of NIS 0.60 per option. 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 grant of the options. The fair value of the options at the date of approval by the general meeting was NIS 4,758 thousand.

NOTE 13 – EQUITY (CONTD.)

B. Share-based payments (contd.)

3) (contd.)

The theoretical economic value of each option, at the grant date, calculated according to the Black and Scholes formula, amounts to NIS 0.48. This value is based on the following assumptions: expected dividend at a rate of 0%, expected volatility at a rate of 56.49%, risk-free interest rate of 2%, and period up to exercise of 4 years.

4) On May 18, 2015, the Company's Board of Directors approved the grant of 5,670,000 options to the chairman of the Board of Directors. The options are exercisable for 1,890,000 ordinary shares of NIS 0.03 par value, plus an exercise price of NIS 0.60 per option. 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.

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 theoretical economic value of each option, at the grant date, calculated according to the Black and Scholes formula, amounts to NIS 0.48. This value is based on the following assumptions: expected dividend at a rate of 0%, expected volatility at a rate of 56.49%, risk-free interest rate of 2%, and an expected period of 4 years up to exercise.

On May 18, 2015, the Company's Board of Directors approved the grant of 7,450,000 options to officers (other than directors or the CEO). The options are exercisable for 2,483,333 ordinary shares of NIS 0.03 par value, plus an exercise price of NIS 0.60 per option. 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 at the grant date is NIS 1,597 thousand.

The theoretical economic value of each option, at the grant date, calculated according to the Black and Scholes formula, amounts to NIS 0.22. This value is based on the following assumptions: expected dividend at a rate of 0%, expected volatility at a rate of 56.18%, risk-free interest rate of 2%, and period up to exercise of 4 years.

5) On May 18, 2015, the Company's Board of Directors approved the grant of 1,000,000 options to the Company's consultant. The options are exercisable for 333,333 ordinary shares of NIS 0.03 par value, plus an exercise price of NIS 0.60 per option. The options will vest in accordance with the milestones that were established. The value of the benefit for the options at the grant date is NIS 240 thousand.

6) On May 21, 2015, the Company's Board of Directors approved the grant of 2,680,000 options to four directors in the Company (670,000 options for each director). The options are exercisable for 893,333 ordinary shares of NIS 0.03 par value, plus an exercise price of NIS 0.60 per option. The options will vest over four years. One half will vest two years after the grant date, and the balance will vest in equal parts in each subsequent month.

On July 30, 2015, the Company's general meeting approved the grant of the options. The fair value of the options at the date of general meeting approval was NIS 1,275 thousand.

The theoretical economic value of each option, at the grant date, calculated according to the Black and Scholes formula, amounts to NIS 0.48. This value is based on the following assumptions: expected dividend at a rate of 0%, expected volatility at a rate of 56.49%, risk-free interest rate of 2%, and period up to exercise of 4 years.

NOTE 13 –CAPITAL AND SURPLUS (CONTD.)

B. Share-based payments (contd.)

7) On August 31, 2015, the Company's Board of Directors approved a grant of 1,300,000 options to the Company's officers (who are not a director or the CEO) and employees. The options are exercisable for 433,333 ordinary shares of NIS 0.03 par value, plus an exercise price of NIS 0.85 per option. 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 at the grant date is NIS 331 thousand.

The theoretical economic value of each option, at the grant date, calculated according to the Black and Scholes formula, amounts to NIS 0.25. This value is based on the following assumptions: expected dividend at a rate of 0%, expected volatility at a rate of 56.36%, risk-free interest rate of 2%, and period up to exercise of 4 years.

Exercise of options

8) On January 9, 2014, the Company's CEO exercised a total of 4,517,626 options for a total of 1,505,875 ordinary shares of the Company. The total exercise addition amounted to NIS 45 thousand.

9) On June 24, 2015, 92,045 options (granted under the employee options plan) were exercised to purchase 30,682 ordinary shares at an exercise price of NIS 0.30 for each option. The total consideration for exercising the option amounts to NIS 27 thousand.

10) On August 15, 2016, 3,620,885 options were exercised for 235,413 ordinary shares of the Company, in a cashless mechanism at no cost to the Company.

11) Grants to employees are made in accordance with the option plan, and are carried out within the provisions of Section 102 of the Israel 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, options were granted in accordance with section 3(I) of the Income Tax Ordinance.

NOTE 13 –CAPITAL AND SURPLUS (CONTD.)

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

	Year ended December 31, 2016		Year ended December 31, 2015		Year ended December 31, 2014	
	Number of options	Weighted average of exercise price	Number of options	Weighted average of exercise price	Number of options	Weighted average of exercise price
Outstanding at the beginning of the period**	45,532,659	0.59	17,963,346	0.56	15,535,762	0.57
Granted			28,100,000	0.61	7,641,770	0.26
Expired*	(4,076,167)	0.6	(318,894)	0.44		
Forfeited	(4,947,135)	0.35	(119,748)	0.84	(696,560)	0.44-1.39
Exercised	(3,620,885)	0.26	(92,045)	0.3	(4,517,626)	0.01
In circulation at the end of the period	32,888,472	0.65	45,532,659	0.59	17,963,346	0.56
Exercisable at the end of the period	14,350,118	0.56	11,700,665	0.49	9,042,670	0.61

* Under the option plan for employees, all options granted to employees will expire ten year after the grant date, or 90 days after severance.

** Every three options are converted into one share capital.

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

2016			2015			2014		
Number of outstanding options at the end of the year	Exercise price range	Weighted average of the remaining contractual life	Number of outstanding options at the end of the year	Exercise price range	Weighted average of the remaining contractual life	Number of outstanding options at the end of the year	Exercise price range	Weighted average of the remaining contractual life
32,888,472	0.26-1.39	7.72	45,532,659	0.26-1.39	8.28	17,963,346	0.26-1.39	7.32

The expenses recognized in the Company's statements of income in 2016, 2015 and 2014 for options granted to employees amounted to NIS 3,573 thousand, 4,081 thousand and 205 thousand, respectively.

NOTE 14 –RESEARCH AND DEVELOPMENT EXPENSES, NET

	Year ended December 31		
	2016	2015	2014
	NIS thousands		
Salary expenses and incidentals	8,728	7,656	6,246
Share-based payment	2,127	2,464	137
Subcontractors and consultants	11,328	7,532	4,429
Perishable equipment and materials	1,806	1,035	659
Depreciation	826	763	750
Maintenance and operating expenses	2,963	2,448	2,056
Others	1,422	1,021	602
	29,200	22,919	14,879
Less participation in R&D expenses See Note 12B	(9,257)	(6,428)	(1,554)
Less participation in net OCS R&D expenses See Note 12(A)(2)	(3,154)	(4,627)	(3,591)
	(16,789)	11,864	9,734

NOTE 15 –ADMINISTRATIVE, GENERAL AND MARKETING EXPENSES

	Year ended December 31		
	2016	2015	2014
	NIS thousands		
Salary and expenses	2,822	1,418	1,803
Share-based payment	1,445	1,617	68
Salary and directors' insurance	787	740	590
Rent and office maintenance	364	407	314
Professional services	5,039	2,248	859
Depreciation	38	25	52
Others	553	495	220
	11,048	6,950	3,906

NOTE 16 –FINANCING EXPENSES (INCOME)

	Year ended December 31		
	2016	2015	2014
	NIS thousands		
Financing expenses:			
Financing expenses arising from liability to the OCS	129		
Expenses arising from exchange rate fluctuations	251		
Bank and other fees	61	51	25
Total financing expenses	441	51	25
Financing income:			
Interest income on cash equivalents and deposits			35
Income arising from exchange rate fluctuations	93	215	607
Total financing income	93	215	642
Financial expenses (income), net	348	(164)	(617)

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 32,888,472 options for employees and service providers, 9,296,284 Series G warrants, 4,152,764 Series H warrants, 13,745,025 Series I warrants, and 36,531,500 Series K warrants, since their effect is anti-dilutive.

Loss per share is calculated after retrospective adjustment following capital consolidation – see Note 13A.

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		
	2016	2015	2014
	NIS thousands		
CEO's salary *	2,010	1,804	1,209
Of which, benefit component for options	1,066	963	
Remuneration of directors	1,214	3,513	893
Of which, benefit component for options **	558	2,455	44
Number of directors	6	6	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.

B. Balances with interested and related parties:

	Year ended December 31		
	2016	2015	2014
	NIS thousands		
For salary, incidentals and other benefits, the balance is stated in other payables under current liabilities	(235)	(200)	(339)

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

C. Compensation for key managerial officers

Compensation for the CFO, VP Research and Development, COO, trade director, Chief Scientist, 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		
	2016	2015	2014
	NIS thousands		
Salary and other short-term benefits	3,917	2,545	1,776
Benefit component for grant of options	2,147	500	56
	6,064	3,045	1,832
Number of managerial key officers	6	5	3

NOTE 19 –SUBSEQUENT EVENTS

A. For information about capital raised by the Company on February 12, 2017, see Note 13A(10).

B. For information about discontinuation on joint development activity with Bioventus, See Note 12B.