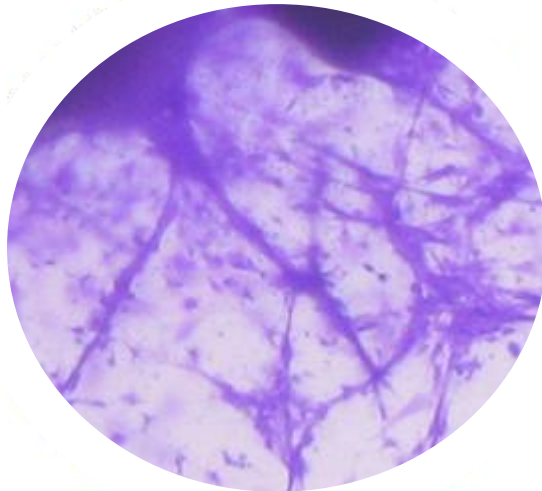
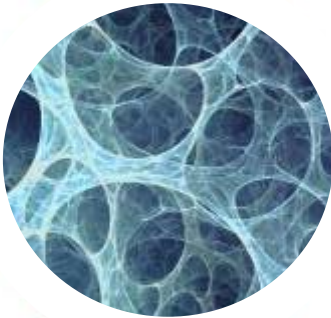




COLLTECH

biomaterials innovation



| Annual Report 2008



Corporate Directory

Directors

Mr Stephen Carter, Non-Executive Chairman
Mr Michael Pixley, Non-Executive Director
Mr Ravindran Govindan, Non-Executive Director
Mr Fathil Bin Mohamed, Non-Executive Director

General Manager

Dr Deborah Cooper

Company Secretary

Mr Glen Brune, Chief Financial Officer

Registered Office

CollTech Australia Limited
ABN 24 094 515 992
Unit 7/41 Walters Drive, Osborne Park WA 6017
Telephone: (+618) 9426 3900
Facsimile: (+618) 9426 3909

Share Register

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace, Perth WA 6000
Telephone: (+618) 9323 2000
Facsimile: (+618) 9323 2033

Stock Exchange

ASX: CAU

Bankers

National Australia Bank
Capital Office
Ground Level, 50 St Georges Terrace, Perth WA 6000

Auditors

HLB Mann Judd
Level 2, 15 Rheola Street, West Perth WA 6005

Solicitors

Pullinger Readhead Lucas
Level 2, 50 Kings Park Road, West Perth WA 6005

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Annual General Meeting

The Board has convened the annual general meeting to be held at 12 noon on Thursday, 23rd of October at its registered office, Unit 7/41 Walters Drive, Osborne Park WA.

Company Overview

CollTech Australia Limited is an ASX-listed bio-industrial company based in Perth, Western Australia (WA). CollTech specialises in the development and commercialisation of collagen products derived from sheep skin (ovine) and is focused on establishing itself as a leading global supplier of premium collagen products to the US\$266 billion (by 2012) combined cosmetics and medical device markets.

CollTech remains the only company in the world to have commercially produced ovine collagen - its unique extraction technology and process is patented in four countries (including Australia) and is awaiting patents in a further seven.

Collagen is a natural protein with a wide range of commercial uses. CollTech's collagen products form key ingredients in cosmetics and medical devices and are also used in research activities. The Company currently manufactures three core products at its purpose built production facility in Collie, WA.

- OVICOLL®|C – a cosmetic grade collagen for use in the manufacture of skincare, haircare and toiletries
- OVICOLL®|Clear – a high grade cosmetic collagen used in the production of premium cosmetics and cosmeceuticals such as anti-aging creams
- OVICOLL®|R – a research grade collagen for tissue culture and other research purposes

Marketed in more than 15 countries, these three products are available in varying strengths and purities and are Halal certified. The Company also provides treated sheep pelts for a food grade collagen which is under investigation with one of the world's largest sausage casings manufacturers.

CollTech is advancing development of its OVICOLL®|M medical grade collagen which will allow the Company to position itself as a premium supplier to the fast-growing global wound care and tissue engineering markets. Release of this product is scheduled for December 2008.

CollTech has entered into an agreement with the University of Western Australia and the Centre of Strategic Nanofabrication to explore the development of and encapsulation of Nano-collagen. This is one of several products in CollTech's development pipeline.

Ovine collagen is sourced from veterinary controlled, certified and traceable livestock in a geographical location recognised by key regulatory authorities as free from transmissible spongiform encephalopathies (TSE) and unaffected by the issue of Mad Cow Disease, making it completely safe. There is also no known cultural group that objects to the use of ovine products. Its premium qualities as a cosmetic and medical device ingredient are promoted by its intact soluble protein structure, high purity and thermal stability. These are just a few of the many advantages CollTech's products have over their bovine, porcine, marine and 'plant' competitors.



CollTech's purpose built manufacturing facility in Collie, Western Australia

Chairman's Report

On behalf of the Board of Directors I am pleased to present CollTech's Annual Report for 2007/08.

Although the past year has been a challenging one, I would like to begin by highlighting the reasons for my unwavering confidence in CollTech despite some disappointing sales results.

2008 saw CollTech reach an important milestone when the Company successfully matured from a commodity-driven collagen company to a fully-fledged biomaterials company with a dynamic product development pipeline.

CollTech's Board and senior management have made significant progress in re-structuring and re-focusing the Company. Following a comprehensive review of operations, a range of changes were implemented during the year including a re-organisation of staffing, a complete revision of our sales strategy and fast tracking of our product development pipeline.

These strategic measures were undertaken with one overarching outcome in mind – to bring CollTech within reach of the lucrative biomedical markets as soon as possible.

To this end, CollTech's sales force has this year re-focused on South East Asia, predominantly on the Chinese and Halal markets where the Company's Halal certified products offer a unique advantage over competitors. Halal certification makes CollTech's ovine collagen the most universally culturally acceptable collagen available in today's market – a major benefit in the global market.

In China, the world's third largest market for cosmetics and toiletries, CollTech has already secured three distributors and has received and dispatched several orders of its collagen products. Significantly, all of CollTech's distributors have been transferred to 'non-exclusive' agreements allowing the Company to increase its representation in these markets.

Sales also received another major boost in 2008 with the release of CollTech's research grade collagen product, OVICOLL®|R, for worldwide supply.

On the development front, another major step forward has been the launch of in excess of seven cosmetic product lines containing CollTech's OVICOLL® collagen. These lines contain multiple products with further in development. There are also multiple other products in development in Australia, China, Thailand, Indonesia and other countries for global release in the coming months.

This year also saw significant progress in medical device development in all four of CollTech's targeted areas: dental, orthopaedic, wound healing and tissue engineering. These exciting collaborative projects address a variety of human health needs in a market projected to be worth US\$266 billion by 2012.

Importantly, CollTech's most crucial asset - its core technology - is now patent protected in Australia, New Zealand, South Africa and China, with patents in Europe, USA, Japan, Canada, India, South Korea and Taiwan pending.

CollTech was granted its Chinese Patent in late 2007, providing vital security and protection in one of the world's largest markets and paving the way for a major sales push into that country in the coming year.

I would like to take this opportunity to thank CollTech's dedicated team for their tireless efforts in what has been a testing 12 months.

However, with a significantly reduced cash burn, a strong re-structured team, an exciting pipeline of products and a revitalised sales strategy, I would again like to reiterate my and the Board's firm belief that 2009 will prove to be a company-defining year for CollTech.

Kind Regards



Stephen Carter

CHAIRMAN

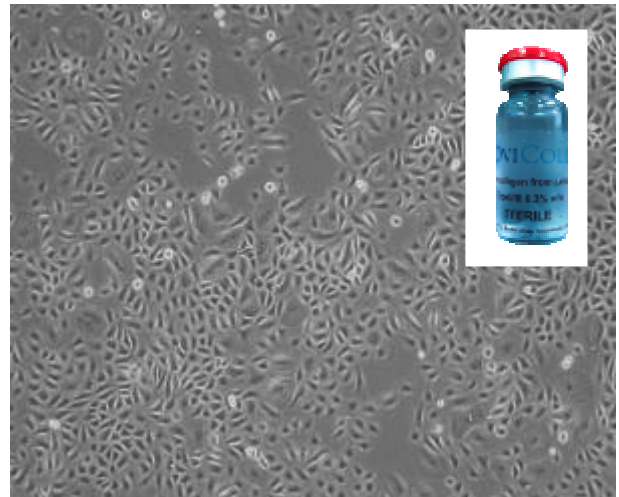
Operations Review 2008

2008 saw CollTech successfully make the transition from a purely commodity-based collagen company to a fully fledged biomaterials company with an active and productive development pipeline of products targeted at the lucrative biomedical markets.

Milestones Achieved

- The release of OVICOLL®|R in November 2007 was on schedule and provided an important stepping stone towards high margin biomedical collagen. CollTech successfully listed this product with a worldwide global supplier.
- Halal certification was granted to CollTech's ovine collagen providing the opportunity to develop the Malaysian, Indonesian and Middle Eastern markets. The worldwide Muslim population is estimated by the Islamic Food and Nutrition Council to be in the region of 1.4 billion. This certification makes CollTech's ovine collagen the most universally culturally acceptable material to worldwide populations. The certification also led to the extension of the product pipeline for CollTech.
- Initiation of medical device development in all four of CollTech's targeted areas: dental, orthopaedic, wound healing and tissue engineering. These are collaborative projects which involve both national and international partners and are supported by regulatory strategy. The projects address a variety of human health needs.
- Chinese Patent granted for CollTech's core technology providing protection in a significant market and in one of the few countries with a sheep population to rival Australia's. This strengthens and secures CollTech's position as the only commercial supplier of ovine collagen in one of the world's largest markets.

- In May 2008 CollTech successfully raised AU\$1.16 million via a rights issue, closing over subscribed. This was in addition to a AU\$400,000 placement in April 2008. The raising enabled the Company to focus on and fast track the development of its medical grade collagen.



CollTech's OVICOLL®|R (sterile) packaged product on a background of ovine collagen supported fibroblasts

Strategic Initiatives

It has been a year of re-structuring and refocusing for CollTech. After a full review of the Company's position, significant staff re-organisation was undertaken, our sales strategy was overhauled and development was fast-tracked to bring CollTech within reach of the lucrative biomedical markets as soon as possible.

These activities were accompanied by a significant reduction in cash-burn, a successful fund raising, the appointment of new Directors to the Board and the relocation of head office to provide a more cost effective base for the Company.

Sales Strategy and Initiatives

Due to disappointing sales results over the past year CollTech's sales strategy and contracts underwent a review process which resulted in significant changes.

Sales efforts have since been re-focused on the more accessible markets throughout South East Asia concentrating particularly on the Chinese and Halal markets. Newly appointed Directors have actively assisted with the push into these markets.

The Halal market in Indonesia is considerable and CollTech launched its products at the Jakarta Expo in June 2008, with an overwhelming response from formulators and salon owners.

China's cosmetic manufacturing market has reached US\$720 million and it is currently the third largest market for cosmetics and toiletries worldwide. To date, CollTech has appointed three non-exclusive distributors in China with national sales exceeding AU\$20,000 in the first quarter. The first half tonne order of ovine collagen has been received and is currently being formulated into a range of skincare products for the Chinese market.

All existing distributors are now on 'non-exclusive' agreements allowing CollTech to increase its representation in these markets.

Current distributors have seen the release of seven cosmetic lines from manufacturers, each consisting of several products. These have been released in Taiwan, Thailand, Malaysia, Indonesia, China and Korea. However, due to delays in manufacturers' release of product this model continues to result in slow progress for CollTech. CollTech will continue to support its current distributors and still hopes to see improvement in the performance of collagen as a raw ingredient for cosmetic products.

Therefore, new initiatives have been undertaken with CollTech currently involved in the launch of two cosmetic lines containing its OVICOLL® collagen. These lines consist of multiple products and are under development with formulators in China and Australia for release globally in November 2008. Direct sales of these products will take place through multi-level marketing organisations providing rapid access to broad markets with the potential for significant revenue return.

Attention to requests from our current distributors and clients in South East Asia has also led to the release of additional products at a lower collagen concentration. These products, branded as OVICOLL®|C 0.5% and OVICOLL®|Clear 0.5% are highly competitive with the marine and 'plant' alternatives commonly used in some parts of Asia. They provide a high quality collagen at a lower price for the lower end bulk retail cosmetic and toiletry markets.

Sales of CollTech's research grade collagen product OVICOLL®|R will be directed through a global supplier and CollTech's own network in the academic sector.



CollTech booth at Jakarta trade show

R&D Strategy and Initiatives

The last year has seen CollTech's R&D team deliver on schedule a sterile research grade collagen, OVICOLL®|R, as well as a non-sterile version for prototype development.

The sterile product has been sent to Sigma-Aldrich for inclusion in their catalogue.

OVICOLL®|R has been supported by substantial independent testing which has indicated its suitability for use with a wide range of cell types. Testing has also excited interest in the use of ovine collagen for therapeutic and tissue engineering purposes. The first academic, peer reviewed papers citing this product have already been submitted to significant journals from highly reputable research departments.



Operations Review 2008 (cont'd)

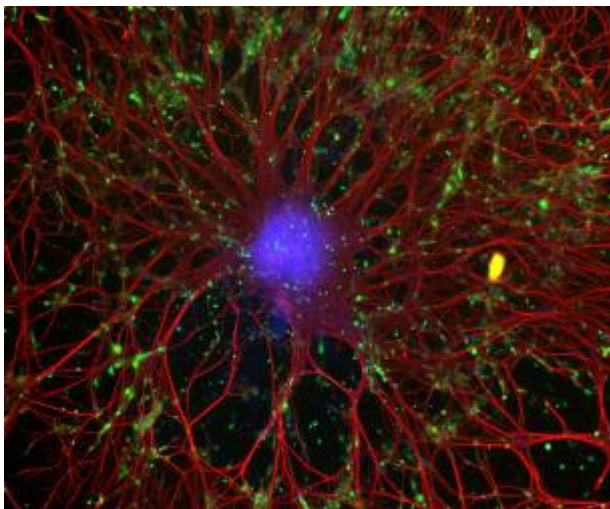
CollTech's strategy was to target defined areas where it possesses in-house expertise and where significant markets exist. These areas are:

- Dental
- Orthopaedic
- Tissue engineering
- Wound healing

All four of these areas have made significant progress.

A dental membrane prototype has been developed with the assistance of an international partner who is poised to become the contract manufacturer of this product post its independent review.

The membrane in its current and modified format is also independently under investigation in the orthopaedic arena. Significant commercial interest in uptake of this product has already been expressed pending the successful completion of its development.



Neuronal outgrowth on ovine collagen
courtesy of G Plant, UWA Dept of Anatomy

Tissue engineering opportunities for this material are also currently under investigation and CollTech's ovine collagen has also been successfully trialled by an international team for its suitability for electrospinning, a technology which could permit the development of collagen thread, cloth or sheets suited

to development of wound dressings as well as implantable devices.

These developments are very exciting and are only the beginning of the potential for CollTech's medical grade ovine collagen, OVICOLL®|M.

CollTech has consistently delivered on its development pipeline and continues to do so, actively pursuing its strategy to engage partners with recognised expertise for co-development of biomedical products.

In addition, CollTech is participating in two new areas of development which have undergone considerable growth:

- Nano-collagen
- Ophthalmic products aimed at the lucrative dry eye market

Regulatory

Regulatory consultants continue to monitor and streamline CollTech's regulatory strategy to ensure entry into the medical device arena is as smooth and cost effective as possible.

The regulatory approach is progressing on several fronts:

- A gap audit to ISO 13485 has been performed and the process is ongoing to deliver this certification by the end of financial year 2009
- A Certificate of Suitability is being applied for, to assist the entry of CollTech's biomaterial into the European device development market
- A technical dossier is under development to permit an application for CE marking of both the biomaterial and the collagen membrane
- CollTech's final membrane product will also be submitted for registration on the ARTG through the TGA in Australia

Intellectual Property

Existing patent protection of CollTech's core technology extends to 2023 and is granted in Australia, New Zealand, South Africa and China with Europe, USA, Japan, Canada, India, South Korea and Taiwan pending.

In line with development work, the potential for two further patents is under investigation to extend CollTech's patent portfolio.

Operations/Manufacturing



Operations at the Collie facility

CollTech's manufacturing plant in Collie in southwestern Australia has built significant inventory

of all cosmetic products. All products are manufactured under a quality system.

Corporate

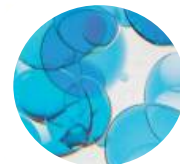
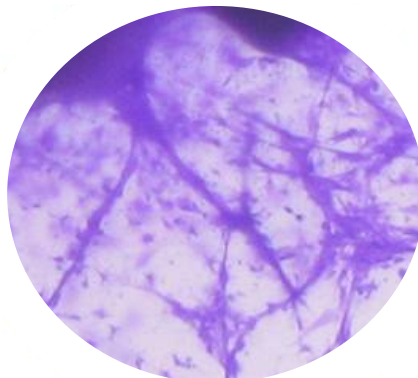
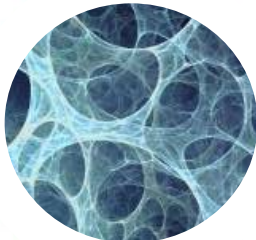
CollTech successfully raised \$400,000 via a placement in April and a further \$1.16 million in May, with free attaching options at an exercise price of 4 cents via a fully under written offer which was over subscribed.

In May 2008 the Board was strengthened by the appointments of Mr Ravindran Govindan and Dr Fathil Bin Mohamed.

The Future

The future for CollTech in the highly lucrative medical device arena looks increasingly solid, with development projects underway, regulatory strategy in place and multiple partners ready to collaborate in these areas. CollTech has and will continue to deliver on its development pipeline.

While the cosmetic market has failed to deliver significant revenue to date the company has learned valuable lessons from this experience and the revised combination of new staff, new agreements, new products and new strategic initiatives will address these issues over the coming months as CollTech enters the final product cosmetic market.



Annual Financial Report

DIRECTORS' REPORT

Your directors present their report on the Company for the financial year ended 30 June 2008:

DIRECTORS:

The following persons were Directors of CollTech Australia Limited ('CollTech' or 'Company') during the whole of the financial year and up to the date of this report unless stated otherwise

| | | |
|-----------------------|------------------------|-----------------------------|
| Mr Stephen Carter | Non-executive Chairman | |
| Mr Michael Pixley | Non-executive Director | |
| Mr Ravindran Govindan | Non-executive Director | - Appointed 30 May 2008 |
| Dr Fathil Bin Mohamed | Non-executive Director | - Appointed 15 May 2008 |
| Dr Anna Kluczevska | Non-executive Director | - Resigned 21 November 2007 |
| Mr Gregg Mastroianni | Non-executive Director | - Resigned 30 May 2008 |

PRINCIPAL ACTIVITIES

CollTech is a company limited by shares that is incorporated and domiciled in Australia. The Company's business involves the production and sale of high-grade collagen and other biomaterials from animal sources in Australia. There were no significant changes in the nature of the Company's principal activities during the financial year.

REVIEW AND RESULTS OF OPERATIONS

CollTech reported a net loss after income tax for the reporting period ended 30 June 2008 of \$1,884,598, down 32.4% on the previous year (2007: \$2,788,392). Revenues from ordinary activities were \$265,251, up 96.0% on the previous year (2007: \$135,358). For further detail, refer to the Review of Operations on pages 5 to 8.

DIVIDENDS

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

EMPLOYEES

The Company had 11 employees at 30 June 2008 (2007: 14 employees).

AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The likely developments in the Company's operations, to the extent that such matters can be commented upon, are covered in the Review of Operations on pages 5 to 8 of the Annual Report. In the opinion of the Directors, disclosure of information regarding the expected results of those operations in financial years after the current financial year is not predictable at this stage, or may prejudice the interests of CollTech. Accordingly this information has not been included in this report.

ENVIRONMENTAL ISSUES

CollTech has operated under environmental licence 7998/1 issued by the Western Australian Department of Environment as prescribed under the Environmental Protection Act 1986. The licence relates to collagen extraction and purification, waste water storage and wastewater disposal pipeline to the Collie Power Station marine disposal outfall tank. During the financial year the Company's operations were materially conducted in accordance with the guidelines of that licence.

Other than mentioned above, during and since the end of the financial year, the directors are not aware of any particular or significant environmental issues which have been raised in relation to the Company's operations.

DIRECTORS' REPORT (CONT'D)

INFORMATION ON DIRECTORS

The names and particulars of Directors of the Company in office at any time during or since the end of the financial year are:

Mr Stephen Carter FAIM MAICD MRACI - Non-executive Chairman - Appointed 1 January 2006

Mr Carter has significant international pharmaceutical experience with strengths in commissioning Good Manufacturing Practice (GMP) facilities, managing clinical, regulatory and IP programs and the funding and promotion of public listed pharmaceutical companies. Mr Carter has previously held senior management positions with pharmaceutical companies Delta West, Upjohn, Pharmacia and Solbec Pharmaceuticals. Mr Carter is currently involved in a number of public and private companies and brings to CollTech the ability to operate at the interface of technology and commerce in rapidly growing companies.

Experience : Mr. Carter has been involved with the international pharmaceutical industry for over 20 years holding senior management positions with international pharmaceutical companies Upjohn and Pharmacia providing him with extensive experience in development and commercialisation of new products as well as strengths in commissioning Good Manufacturing Practice (GMP) facilities, managing clinical, regulatory and IP programs .

In the 3 years immediately before the end of the financial year Mr Stephen Carter also served as a director of Solbec Pharmaceuticals Ltd, a public listed company.

Mr Michael Pixley BBus - Non-executive Director - Appointed 28 September, 2006

Mr Pixley has more than 20 years international management experience with strengths in strategic corporate development, entrepreneurial leadership and business and product development across a broad range of industries. As a merchant banker, Mr Pixley successfully completed numerous joint ventures and acquisitions, and in other leadership positions managed and commissioned several greenfield construction projects and led start-up companies to IPO. Mr Pixley is currently Deputy CEO of Natural Fuel Ltd and has previously held overseas directorships with Transocean Securities, Co-don Asia Pacific, CPI Inc and Imagine Interactive Pte Ltd. Mr Pixley was CollTech's Chief Executive from February 2004 to September 2006.

In the 3 years immediately before the end of the financial year Mr Michael Pixley also served as a director of Natural Fuel, a public listed company.

Mr Ravindran Govindan - Non-executive Director - Appointed 30 May 2008

Experience: Mr Govindan is a very experienced businessman having co-founded companies in retail, biotech, medical devices, information technology, emerging technologies, real estate and manufacturing. He provides strategic advice on Asia Pacific Region for Latona Associates Inc, a private investment and financial advisory firm based in New York, USA and was the group President of the Fisher Scientific group of companies in the Asia Pacific Region.

His current portfolio encapsulates several chairmanships, board memberships and entrepreneurial ventures that have launched into successful public company listings such as Time Medical Inc in USA and ProcureChina Pte Ltd, I-Flapp Technologies Pte Ltd and I Nuovi Cosmetics in Singapore. Mr Govindan also provides business consultancy to private and public enterprises, financial institutions and highly influential individuals in this region.

In the 3 years immediately before the end of the financial year Mr Ravindran Govindan also served as a director of the following listed companies:

Costarella Design Limited*
MedTech Global Limited*
Agenix Limited
Magnus Energy Group Limited

* denotes current directorships

Dr Fathil Bin Mohamed - Non-executive Director - Appointed 15 May 2008

Experience : Dr Fathil has a PhD in Microbiology and Genetic Engineering, and has over 25 years as an entrepreneur. Dr Fathil is a former lecturer at the National University of Malaysia in the areas of microbiology, molecular biology and food science. He has first hand and in-depth experience in food manufacturing and global marketing, as the first person to introduce domestic Malaysian savoury products onto the shelves of supermarkets across the globe.

Dr Fathil was instrumental in the development of the Halal Certification and Standards in Malaysia, and worked closely with Jabatan Kemajuan Islam Malaysia ("JAKIM") during this time. Dr. Fathil is one of the pioneers and the key promoter of the concept of Quality and Traceability of Halal products for the Muslim market. During the period he was constantly engaged on lecture tours propagating the concept to parts of Europe, Middle East countries, the United States, Thailand and the Philippines.

Currently Dr Fathil has substantial interests in various companies in Malaysia and is the Chairman and shareholder of Proven Niche Sdn Bhd, the holding company for businesses involved in the distribution and retailing of cosmoceutical and pharmaceutical products in Malaysia, Director and shareholder of Stop N Shop Hyperretail (M) Sdn Bhd, the company involved in the distribution and retailing of Meat and Meat Products in Malaysia.

DIRECTORS' REPORT (CONT'D)

Dr Anna Kluczevska BSc – Non-Executive Director

- Resigned 21 November 2007

Dr Kluczevska is a qualified dental surgeon with significant experience in the biotechnology and healthcare industry including start-up, general and operations management, IP development, capital raising and investor relations. Currently CEO/President of molecular imaging company AION Diagnostics, Dr Kluczevska was former global product manager for Baxter Healthcare's BioSurgery division where she oversaw the management of products in over 50 countries, successfully obtained product registration and covered the company's collagen product portfolio.

Mr Gregg Mastroianni – Non-Executive Director

- Resigned 30 May 2008

Mr Mastroianni has over thirty-five years of international sales and marketing experience in the health sciences industry, including twenty-seven years with health care giant Johnson and Johnson. During this time Mr Mastroianni has developed extensive skills in developing new markets, establishing successful distribution channels, Business to Business (B2B) operations management and managing sales teams to provide improved performance whilst increasing margins and volumes.

GENERAL MANAGER:

Dr Deborah Cooper BSc (Hons) MSc PhD

- Appointed 1 November 2007

Dr Cooper has more than fifteen years R&D experience in biotech and academia, including clinical manufacturing, regulatory affairs and Quality Assurance. She has previously worked for tissue engineering companies such as Clinical Cell Culture (C3) and Verigen Australia (Genzyme subsidiary). Dr Cooper holds a Bachelor of Science awarded with Honours from London University, a Master of Science in Immunology from Birmingham University and a PhD in cellular immunology from Cambridge University.

Dr Cooper commenced with CollTech in the role of Chief Scientific Officer in November 2005.

COMPANY SECRETARY:

Mr Glen Brune Bbus FCPA MAICD

- Appointed 28 August 2006

Mr Brune has over twenty years commercial experience in accounting, finance and corporate management. He has held various senior executive positions as Finance Director, CFO and Company Secretary in public, private and multinational companies. He was a key player in the international expansion of a cosmetic distribution company, and more recently consulted to a number of manufacturing organisations to improve their business systems.

Mr Brune also holds the position of Chief Financial Officer for the company.

DIRECTORS' REPORT (CONT'D)

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY**Shareholdings:**

Number of shares held by the following Directors and Executives:

| | Balance 1 July 2007 | Received as remuneration | Options exercised* | Net change other | Balance 30 June 2008 |
|-----------------------|------------------------|-----------------------------|-----------------------|---------------------|-------------------------|
| <u>Directors:</u> | | | | | |
| Mr Stephen Carter | 421,519 | - | - | 257,481 | 679,000 |
| Mr Michael Pixley | 6,600,000 | - | - | 1,333,334 | 7,933,334 |
| Mr Ravindran Govindan | - | - | - | 13,667,286 | 13,667,286 |
| Dr Fathil Bin Mohamed | - | - | - | 30,718,955 | 30,718,955 |
| Dr Anna Kluczevska | 132,600 | - | - | (32,600) | 100,000 |
| Mr Gregg Mastroianni | - | - | - | - | - |
| | <u>7,154,119</u> | <u>-</u> | <u>-</u> | <u>45,944,456</u> | <u>53,098,575</u> |
| <u>Executives:</u> | | | | | |
| Dr Deborah Cooper | - | 28,571 | - | - | 28,571 |
| Mr Glen Brune | 678,337 | 28,571 | - | (228,882) | 478,026 |
| | <u>678,337</u> | <u>57,142</u> | <u>-</u> | <u>(228,882)</u> | <u>506,597</u> |
| | <u>7,832,456</u> | <u>57,142</u> | <u>-</u> | <u>45,715,574</u> | <u>53,605,172</u> |

* No shares have been issued on exercise of any remuneration options.

Option holdings – listed:

Number of listed options held by the following Directors and Executives:

| | Balance 1 July 2007 | Options acquired | Options forfeited | Options expired | Balance 30 June 2008 |
|-----------------------|------------------------|---------------------|----------------------|--------------------|-------------------------|
| <u>Directors:</u> | | | | | |
| Mr Stephen Carter | - | 257,481 | - | - | 257,481 |
| Mr Michael Pixley | - | 333,334 | - | - | 333,334 |
| Mr Ravindran Govindan | - | 7,433,490 | - | - | 7,433,490 |
| Dr Fathil Bin Mohamed | - | 27,777,778 | - | - | 27,777,778 |
| Dr Anna Kluczevska | - | - | - | - | - |
| Mr Gregg Mastroianni | - | - | - | - | - |
| | <u>-</u> | <u>35,802,083</u> | <u>-</u> | <u>-</u> | <u>35,802,083</u> |
| <u>Executives:</u> | | | | | |
| Dr Deborah Cooper | - | - | - | - | - |
| Mr Glen Brune | - | 112,364 | - | - | 112,364 |
| | <u>-</u> | <u>112,364</u> | <u>-</u> | <u>-</u> | <u>112,364</u> |
| | <u>-</u> | <u>35,914,447</u> | <u>-</u> | <u>-</u> | <u>35,914,447</u> |

DIRECTORS' REPORT (CONT'D)

Option holdings – unlisted:

Number of options held by the following Directors and Executives:

| | Balance 1 July 2007 | Granted as remuneration | Options forfeited | Options expired | Balance 30 June 2008 | Total vested 30 June 2008 |
|-----------------------|------------------------|----------------------------|----------------------|--------------------|-------------------------|------------------------------|
| <u>Directors:</u> | | | | | | |
| Mr Stephen Carter | 2,200,000 | - | - | - | 2,200,000 | 2,200,000 |
| Mr Michael Pixley | - | - | - | - | - | - |
| Mr Ravindran Govindan | - | - | - | - | - | - |
| Dr Fathil Bin Mohamed | - | - | - | - | - | - |
| Dr Anna Kluczevska | - | - | - | - | - | - |
| Mr Gregg Mastroianni | - | 2,000,000 | (2,000,000) | - | - | - |
| | 2,200,000 | 2,000,000 | (2,000,000) | - | 2,200,000 | 2,200,000 |
| <u>Executives:</u> | | | | | | |
| Dr Deborah Cooper | 1,000,000 | 3,000,000 | - | - | 4,000,000 | 4,000,000 |
| Mr Glen Brune | 650,000 | 2,000,000 | - | - | 2,650,000 | 2,390,000 |
| | 1,650,000 | 5,000,000 | - | - | 6,650,000 | 6,390,000 |
| | 3,850,000 | 7,000,000 | (2,000,000) | - | 8,850,000 | 8,590,000 |

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of CollTech Australia Limited (the "Company").

The following persons acted as directors during or since the end of the financial year:

| | | |
|-----------------------|------------------------|-----------------------------|
| Mr Stephen Carter | Non-executive Chairman | |
| Mr Michael Pixley | Non-executive Director | |
| Mr Ravindran Govindan | Non-executive Director | - Appointed 30 May 2008 |
| Dr Fathil Bin Mohamed | Non-executive Director | - Appointed 15 May 2008 |
| Dr Anna Kluczevska | Non-executive Director | - Resigned 21 November 2007 |
| Mr Gregg Mastroianni | Non-executive Director | - Resigned 30 May 2008 |

The term 'senior management' is used in this remuneration report to refer to the following persons.

| | |
|-------------------|---|
| Dr Deborah Cooper | General Manager |
| Mr Glen Brune | Company Secretary / Chief Financial Officer |

Except as noted the named persons held their current position during the whole of the financial year and up to the date of this report unless stated otherwise

Remuneration philosophy

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

DIRECTORS' REPORT (CONT'D)

Remuneration structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at a general meeting of members held on 1 December 2003 when shareholders approved an aggregate remuneration of \$200,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. Each director receives a fee for being a director of the Company.

The remuneration of non-executive directors for the year ended 30 June 2008 is detailed in Table 1 below.

Senior manager remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed remuneration

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component of the senior managers is detailed in Table 2 below.

Variable remuneration

The Company's primary activities during the past financial year, and focus of variable remuneration, has been sale of product, streamlining business operations, manufacturing of product and product development of its OVICOLL[®] cosmetic, research and medical grade collagens.

The aggregate of annual payments available for executives across the Company is subject to the approval of the Remuneration Committee. No annual bonus payments were made during the year (2007 \$70,000).

The Company also makes long term incentive payments to reward senior executives in the form of the employee share option plan, refer below.

Employee share option plan

The Company believes that encouraging its directors and executives to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's Employee Share Option Plan.

The Company has adopted the CollTech Employee Share Option Plan for the purpose of recognising the efforts of, and providing incentives to, employees of the Company. Options are granted under the Employee Share Option Plan for no consideration. Options are granted for a three year period and entitlements to the options are vested and made exercisable in defined tranches to reflect the Company's development strategy and align the interests of directors and executives to those of shareholders. Options are granted to directors and executives taking into account a number of factors, including the amount and term of options previously granted, base salary and competitive factors.

Further details of the employee share option plan are included in Note 21.

Indemnification and insurance of directors and officers

The Company has agreed to indemnify all the directors and officers for any breach of laws and regulations arising from their role as directors and officers to the maximum extent permissible at law. The total amount of premiums paid during the year was \$17,033 (2007: \$19,022).

DIRECTORS' REPORT (CONT'D)

Employment contracts

Details of additional employment agreement information for named executives is provided below:

| | Dr Deborah Cooper | Mr Glen Brune |
|---|--|----------------|
| a) Commencement date | 4 September 2005 | 28 August 2006 |
| b) Termination date of contract | No fixed date. | No fixed date. |
| c) Period of notice for resignation/termination | 3 months | 3 months |
| d) Termination - with cause | The Company may terminate at any time without notice if serious misconduct has occurred. Where termination with cause occurs employees are only entitled to entitlements up to the date of termination and any unvested options will immediately be forfeited. | |
| e) Termination - without cause | The Agreements with the Executives provides for the termination of the agreement by paying a severance payment of up to three months in addition to notice period. | |

Remuneration of directors and named executives

| | Year ended 30 June | Primary | | | Post emp. | Equity | | Total \$ |
|--|-----------------------|------------------------|------------------|----------------------------|--------------------------|---------------|-------------|-------------|
| | | Salary & fees \$ | Cash bonus \$ | Non-cash benefits \$ | Superan nuation \$ | Options \$ | Other \$ | |
| Table 1: Non-executive Directors' remuneration: | | | | | | | | |
| Mr Stephen Carter | 2008 | 65,000 | - | - | 5,850 | - | - | 70,850 |
| | 2007 | 65,000 | - | - | 5,850 | - | - | 70,850 |
| Mr Michael Pixley | 2008 | 40,000 | - | - | 3,600 | - | - | 43,600 |
| | 2007 | 73,000 | - | - | 6,570 | - | - | 79,570 |
| Mr Ravindran Govindan | 2008 | 2,667 | - | - | - | - | - | 2,667 |
| | 2007 | - | - | - | - | - | - | - |
| Dr Fathil Bin Mohamed | 2008 | 4,000 | - | - | - | - | - | 4,000 |
| | 2007 | - | - | - | - | - | - | - |
| Dr Anna Kluczevska | 2008 | 12,533 | - | - | 1,128 | - | - | 13,661 |
| | 2007 | 30,250 | - | - | 2,723 | - | - | 32,973 |
| Mr Gregg Mastroianni | 2008 | 45,333 | - | - | 4,080 | - | - | 49,413 |
| | 2007 | 6,667 | - | - | 600 | - | - | 7,267 |
| Dr John Snowden | 2008 | - | - | - | - | - | - | - |
| | 2007 | 11,583 | - | - | 1,043 | - | - | 12,626 |
| | 2008 | 169,533 | - | - | 14,658 | - | - | 184,191 |
| | 2007 | 186,500 | - | - | 16,786 | - | - | 203,286 |

Table 2: Executives' remuneration:

| | | | | | | | | |
|-------------------|------|---------|--------|--------|--------|--------|---------|---------|
| Dr Deborah Cooper | 2008 | 174,205 | - | 10,275 | 16,650 | 41,500 | - | 242,630 |
| | 2007 | 162,499 | 10,000 | - | 14,625 | 20,540 | - | 207,664 |
| Mr Glen Brune | 2008 | 167,500 | - | - | 15,075 | 28,500 | - | 211,075 |
| | 2007 | 133,674 | 10,000 | - | 12,031 | 3,640 | - | 159,345 |
| Dr Leearne Hinch | 2008 | - | - | - | - | - | - | - |
| | 2007 | 150,124 | 50,000 | - | 13,511 | - | 102,375 | 316,010 |
| Mr Mathew Whyte | 2008 | - | - | - | - | - | - | - |
| | 2007 | 35,795 | - | 4,165 | 3,222 | - | - | 43,182 |
| | 2008 | 341,705 | - | 10,275 | 31,725 | 70,000 | - | 453,705 |
| | 2007 | 482,092 | 70,000 | 4,165 | 43,389 | 24,180 | 102,375 | 726,201 |

DIRECTORS' REPORT (CONT'D)

No proportion of the above directors' and executives' remuneration was related to the performance of the Company.

Options provided as remuneration and shares issued on exercise of such options:

During the financial year options were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. No share options have been granted to the non-executive members of the Board of Directors under this scheme. For further details relating to the options, refer to Note 21.

| | Terms & conditions for each grant | | | | | | | | |
|-------------------|-----------------------------------|--------------|------------------------|--------------------------------------|----------------|------------------|-----------------------------------|-----------------------------|-------------------|
| | Grant date | Grant number | No. vested during year | Fair value per option at grant date* | Exercise price | Exercised number | Value per option at exercise date | Value at date option lapsed | % of remuneration |
| Dr Deborah Cooper | 30/06/08 | 3,000,000 | 3,000,000 | \$0.0135 | \$0.04 | N/A | N/A | N/A | 16.7% |
| Mr Glen Brune | 30/06/08 | 2,000,000 | 2,000,000 | \$0.0135 | \$0.04 | N/A | N/A | N/A | 13.0% |

Options granted to Dr Cooper and Mr Brune, for no consideration were fully vested on the date they were granted.

| | Terms & conditions for each grant | | | | | | | | |
|-------------------|-----------------------------------|--------------|------------------------|--------------------------------------|----------------|------------------|-----------------------------------|-----------------------------|-------------------|
| | Grant date | Grant number | No. vested during year | Fair value per option at grant date* | Exercise price | Exercised number | Value per option at exercise date | Value at date option lapsed | % of remuneration |
| Dr Deborah Cooper | 02/08/06 | 350,000 | 350,000 | \$0.052 | \$0.10 | N/A | N/A | N/A | 9.9% |
| Mr Glen Brune | 09/02/07 | 650,000 | 130,000 | \$0.028 | \$0.10 | N/A | N/A | N/A | 2.3% |

* Fair values of options granted as part of senior management remuneration have been valued using a Black-Scholes option pricing model, which takes into account a number of factors including the option exercise price, the current level and volatility of the underlying share price, the share price at grant date, the risk-free interest rate and expected life of the option. The model inputs for each of these options are provided in a table under Note 21.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

| | Meetings of committees | | | |
|-------------------------------------|------------------------|-------|--------------|------------|
| | Director | Audit | Remuneration | Nomination |
| <u>Number of meetings held:</u> | 10 | 2 | 2 | 1 |
| <u>Number of meetings attended:</u> | | | | |
| Mr Stephen Carter | 10 | 2 | 2 | 1 |
| Mr Michael Pixley | 10 | 2 | 2 | 1 |
| Mr Ravindran Govindan | - | - | 1 | - |
| Dr Fathil Bin Mohamed | 1 | - | 1 | - |
| Dr Anna Kluczevska | 3 | 1 | 1 | - |
| Mr Gregg Mastroianni | 10 | 2 | 1 | - |

For the reporting period, Mr Govindan and Dr Fathil attended all meetings since their appointment to the Board. Dr Kluczevska resigned from the Board on 21 November 2007, Mr Mastroianni resigned from the Board on 30 May 2008.

DIRECTORS' REPORT (CONT'D)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Auditor independence

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out below and forms part of this directors' report for the year ended 30 June 2008.

Non-audit services

During the year ended 30 June 2008 our auditors, HLB Mann Judd, did not receive any payment for the provision of non-audit services.

Signed in accordance with a resolution of the directors.



Stephen Carter
Chairman

Perth, Western Australia
September 18, 2008



Accountants | Business and Financial Advisers

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of CollTech Australia Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of CollTech Australia Limited.



Perth, Western Australia
18 September 2008

W M CLARK
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of  International, a world-wide organisation of accounting firms and business advisers

Corporate Governance Statement

STATEMENT

In accordance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles and Recommendations"), CollTech Australia Limited ("Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Principles and Recommendations, the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available and activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Principles and Recommendations, the Board has offered full disclosure of the nature of and reason for the adoption of its own practice.

The Company has undertaken a review of its governance documentation as a consequence of the revision to the ASX Principles and Recommendations. The Company will be reporting against the revised ASX Principles and Recommendations in its next annual report.

Further information about the Company's corporate governance practices is set out on the Company's website at www.colltech.com.au. In accordance with the ASX Principles and Recommendations, information published on the Company's website includes charters (for the Board and its committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

During the Company's 2007/2008 financial year ("Reporting Period") the Company has complied with each of the ASX Principles and Recommendations, other than in relation to the matters specified below.

Principles 2 – Recommendation 2.1: A majority of the Board should be independent directors.

Notification of Departure: For a small portion of the Reporting Period, the Board was not comprised of a majority of independent directors.

Explanation for Departure: Due to changes to the composition of the Board, the Board no longer has a majority of independent directors. The Board considers that its current composition is the most appropriate blend of skills and expertise, relevant to the Company's business. The Board is aware of the importance of independent judgment and considers independence, amongst other things, when new appointments to the Board are made.

Principles 2 – Recommendations 2.4: The Board should establish a Nomination Committee

Notification of Departure: The full Board fulfils the function of a nomination committee.

Explanation for Departure: The full Board considers those matters that would usually be the responsibility of a nomination committee. Given that the Board comprises only four directors, the Board considers that no efficiencies or other benefits would be gained by establishing a separate committee. The Board has adopted a Nomination Committee Charter which it applies, as relevant.

Principle 4 – Recommendations 4.2 and 4.3: The Board should establish an Audit Committee and structure it in accordance with recommendation 4.3

Notification of Departure: A separate audit committee has not been formed and therefore is not structured in accordance with the compositional recommendation. Further, Mr Carter maintains the chair during such meetings.

Explanation for Departure: The full Board carries out the role of an audit committee. The Board considers that given its size and composition, no efficiencies or other benefits would be gained by establishing a separate audit committee. The Board takes appropriate measures to ensure the integrity of the accounts. [These measures include convening as the audit committee separate from regular meetings of the Board.] The Board has also adopted an Audit Committee Charter, which it applies when convening as the audit committee:

Principles 9 – Recommendations 9.2: The Board should establish a Remuneration Committee

Notification of Departure: The full Board fulfils the function of a remuneration committee.

Explanation for Departure: The full Board considers those matters that would usually be the responsibility of a remuneration committee. Given that the Board comprises only four directors, the Board considers that no efficiencies or other benefits would be gained by establishing a separate committee. The Board has adopted a Remuneration Committee Charter which it applies, as relevant. Further, in accordance with the Corporations Act requirements, no directors participate in any deliberations regarding their own remuneration or related issues.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

NOMINATION COMMITTEE

The full Board, in its capacity as the Nomination Committee, held two meetings during the Reporting Period. The following table identifies the attendance of each Board member at those meetings:

| <u>Directors:</u> | No. of meetings attended |
|-----------------------|--------------------------|
| Stephen Carter | 1 |
| Michael Pixley | 1 |
| Mr Ravindran Govindan | - |
| Dr Fathil Bin Mohamed | - |
| Dr Anna Kluczevska | - |
| Gregg Mastroianni | - |

Dr Anna Kluczevska and Mr Ravindran Govindan did not attend the Nomination Committee meeting as it occurred outside the time of their appointment to the Board.

AUDIT COMMITTEE

The full Board, in its capacity as the Audit Committee, held two meetings during the Reporting Period. The following table identifies the attendance of each Board member at those meetings:

| <u>Directors:</u> | No. of meetings attended |
|-----------------------|--------------------------|
| Stephen Carter | 2 |
| Michael Pixley | 2 |
| Mr Ravindran Govindan | - |
| Dr Fathil Bin Mohamed | - |
| Dr Anna Kluczevska | 1 |
| Gregg Mastroianni | 2 |

Dr Anna Kluczevska did not attend all of the Audit Committee meetings and Mr Ravindan Govindran and Dr Fathil Bin Mohamed did not attend either of the meetings as they occurred outside the time of their appointment to the Board.

Details of each of the director's qualifications are set out in the Director's Report.

While none of the Audit Committee members have formal financial qualifications, all members have industry knowledge and experience and consider themselves to be financially literate. Further, the Company's Audit Committee Charter provides that the Board meet with the external auditor without management present, as required.

REMUNERATION COMMITTEE

The full Board, in its capacity as the Remuneration Committee, held two meetings during the Reporting Period. Each of Messrs Govindan and Mastroianni and Drs Fathil and Kluczevska attended one meeting as the second meeting occurred outside the time of their appointment to the Board.

OTHER

Skills, experience, expertise and term of office of each Director

A profile of each director containing the skills, experience, expertise and term of office of each director is set out in the Directors' Report.

Identification of independent directors

In considering the independence of directors, the Board refers to the criteria for independence as set out in Box 2.1 of the ASX Principles and Recommendations ("Independence Criteria"). To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Board Charter, which is disclosed in full on the Company's website.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Applying the Independence Criteria, the independent director of the Company is Mr Stephen Carter.

In the interests of disclosure, through his consultancy company, Mr Carter provides expertise and know-how in relation to the Company's business, which service is provided at normal commercial rates. Notwithstanding the relationship between Mr Carter and the Company, the Company does not consider that relevant materiality thresholds are exceeded and therefore Mr Carter is not impeded from exercising independent judgment in his role as director.

Statement concerning availability of independent professional advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the chairperson, the Company will pay the reasonable expenses associated with obtaining such advice.

Confirmation whether performance evaluation of the Board and its members have taken place and how conducted

During the Reporting Period an evaluation of the Board and its members was carried out. The process involved a questionnaire circulated to Board members regarding the role and performance of the Board. Verbal discussions were held with each Board member. As a result of this evaluation process and with reference to the overall strategic direction of the Company, changes were made to the composition of the Board.

Further, evaluations of key executives occurred on an on-going basis throughout the Reporting Period through informal discussions with the General Manager, Dr Debra Cooper

Existence and terms of any schemes for retirement benefits for Non-executive Directors

There are no termination or retirement benefits for non-executive directors.

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

| | Note | 2008 \$ | 2007 \$ |
|--|------|--------------|--------------|
| Revenue | 2 | 265,251 | 135,358 |
| Depreciation expense | 3 | (204,747) | (218,465) |
| Borrowing costs expense | 3 | (46,097) | (63,696) |
| Share based payments | 3 | (118,822) | (28,652) |
| Other expenses | 3 | (2,425,711) | (2,985,850) |
| Loss before income tax benefit | | (2,530,126) | (3,161,305) |
| Income tax benefit | 4 | 645,528 | 372,913 |
| Net loss attributable to members | | (1,884,598) | (2,788,392) |
| Basic loss per share (cents per share) | 6 | (1.02 cents) | (1.97 cents) |
| Diluted loss per share (cents per share) | 6 | (1.02 cents) | (1.97 cents) |

The accompanying notes form part of these financial statements.

BALANCE SHEET
AS AT 30 JUNE 2008

| | Note | 2008 \$ | 2007 \$ |
|--------------------------------------|------|------------------|------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 7 | 1,079,772 | 1,271,953 |
| Trade and other receivables | 8 | 352,782 | 45,244 |
| Inventories | 9 | 201,698 | 125,699 |
| Other | 10 | 61,088 | 43,718 |
| TOTAL CURRENT ASSETS | | 1,695,340 | 1,486,614 |
| NON-CURRENT ASSETS | | | |
| Other financial assets | 11 | 240,000 | 380,000 |
| Property, plant and equipment | 12 | 2,324,129 | 2,502,540 |
| TOTAL NON-CURRENT ASSETS | | 2,564,129 | 2,882,540 |
| TOTAL ASSETS | | 4,259,469 | 4,369,154 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 324,558 | 394,418 |
| Borrowings | 14 | 196,586 | 181,768 |
| TOTAL CURRENT LIABILITIES | | 521,144 | 576,186 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 14 | 272,587 | 450,623 |
| TOTAL NON-CURRENT LIABILITIES | | 272,587 | 450,623 |
| TOTAL LIABILITIES | | 793,731 | 1,026,809 |
| NET ASSETS | | 3,465,738 | 3,342,345 |
| EQUITY | | | |
| Issued capital | 15 | 12,568,489 | 10,670,320 |
| Reserves | 15 | 789,172 | 679,350 |
| Accumulated losses | 15 | (9,891,923) | (8,007,325) |
| TOTAL EQUITY | | 3,465,738 | 3,342,345 |

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

| | Note | 2008 \$ | 2007 \$ |
|---|------|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 37,347 | 28,170 |
| Payments to suppliers and employees | | (2,573,075) | (3,041,946) |
| Interest received | | 65,455 | 96,338 |
| Finance costs | | (46,097) | (63,696) |
| Government grant | | 89,850 | 10,850 |
| Income tax received | | 395,528 | 372,913 |
| Net cash used in operating activities | 7 | (2,030,992) | (2,597,371) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (27,140) | (161,612) |
| Net cash used in investing activities | | (27,140) | (161,612) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | 2,015,116 | 3,058,112 |
| Proceeds from sale of plant and equipment | | - | 8,636 |
| Costs of share issue | | (125,947) | (244,844) |
| Funds held as security deposit | | 140,000 | (105,186) |
| Proceeds from borrowings | | 45,448 | 27,486 |
| Repayment of borrowings | | (208,666) | (167,183) |
| Net cash provided by financing activities | | 1,865,951 | 2,577,021 |
| Net decrease in cash held | | (192,181) | (181,962) |
| Cash at the beginning of the financial year | | 1,271,953 | 1,453,915 |
| Cash at the end of the financial year | 7 | 1,079,772 | 1,271,953 |

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

| | Note | Ordinary Shares \$ | Accumulated Losses \$ | Option Reserve \$ | Total \$ |
|--|------|--------------------------|-----------------------------|-------------------------|-------------|
| EQUITY | | | | | |
| Balance as at 1 July 2007 | | 10,670,320 | (8,007,325) | 679,350 | 3,342,345 |
| Shares issued during the year | 15 | 2,024,116 | - | - | 2,024,116 |
| Share issue costs | 15 | (125,947) | - | - | (125,947) |
| Net loss attributable to members | 15 | - | (1,884,598) | - | (1,884,598) |
| Option reserve and recognition of bonus element of options | 15 | - | - | 109,822 | 109,822 |
| Balance as at 30 June 2008 | | 12,568,489 | (9,891,923) | 789,172 | 3,465,738 |

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of preparation**

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report covers CollTech as an individual company. CollTech is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The Company's principal activities are the development and commercialisation of sheep collagen and collagen based healthcare products.

(b) **Adoption of new and revised standards**

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2008, the Company has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Company has also adopted the following Standards as listed below which only impacted on the Company's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Instruments' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2008. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

(c) **Statement of compliance**

The financial report was authorised for issue by the Board of Directors on 18 September, 2008.

The financial report complies with Australian Accounting Standards, which includes Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) **Significant accounting judgments, estimates and assumptions**

The application of accounting policies requires the use of judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black & Scholes model, using the assumptions detailed in Note 21.

(e) **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery to the carrier of the goods to the customer.

(ii) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(f) **Borrowing costs**

Borrowing costs are recognised as an expense when incurred except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs – refer Note 1(f).

Finance leased assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

(i) Raw materials

Purchase cost on a first-in, first-out basis; and

(ii) Finished goods and work-in-progress

Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(k) Foreign currency transactions and balances

Both the functional and presentation currency of CollTech Australia Limited is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

Exchange differences arising on hedged transactions undertaken to hedge foreign currency exposures, other than those for the purchase and sale of goods and services, are brought to account in the profit from ordinary activities when the exchange rates change. Any material gain or loss arising at the time of entering into hedge transactions is deferred and brought to account in the profit from ordinary activities over the lives of the hedges.

Costs or gains arising at the time of entering hedged transactions for the purchase and sale of goods and services, and exchange differences that occur up to the date of purchase or sale, are deferred and included in the measurement of the purchase or sale. Gains and losses from speculative foreign currency transactions are brought to account in the profit from ordinary activities when the exchange rate changes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) **Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. The Company has not recorded a tax benefit or deferred tax asset as it deems that it has not yet had sufficient taxable profit that will allow all or part of the deferred income tax asset to be utilised. The company has an income tax benefit representing the R&D tax concession the Company is likely to receive in the next twelve months for the year ended 30 June 2008.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

(m) **Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(n) **Property, plant and equipment**

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Buildings – over 20 years
- Plant and equipment – over 2½ to 20 years

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) **Property, plant and equipment (cont'd)**

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(iii) Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a reducing balance basis over their useful lives to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The major depreciation rates used are between 7.5% and 40%.

(o) **Research and development expenditure**

Research and development costs are charged to profit/loss from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs. To date no research and development costs, including costs associated with patent applications, have been deferred.

(p) **Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(q) **Employee leave benefits**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

(r) **Share-based payment transactions**

The Company provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black & Scholes model, further details of which are given in Note 21.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than market conditions linked to the price of the shares of CollTech (ASX:CAU) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Share-based payment transactions (cont'd)

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share – refer Note 6.

(s) Going concern

The financial statements are prepared on a going concern basis.

At balance date, the Company had an excess of current assets over current liabilities of \$1,174,196. The Company intends to raise further capital via the issue of shares during 2008 and 2009 to further fund the company. CollTech continued to conduct research and development into future biomedical collagen products for research and medical applications. This technology is in its early stages of commercialisation where the cash flows generated by sales do not yet cover the market development and ongoing costs of operations.

The ability of the Company to continue as a going concern depends upon the generation of additional cash inflows, through one or more of the following avenues:

- The inflow of projected revenue from the sale of the Company's cosmetic, research and medical grade collagen;
- The reduction in costs of operations; and
- The receipt of additional debt or equity funds.

The Company's existing projections show that anticipated cash inflows from current operations, collections of receivables and ongoing commercial negotiations with distributors, coupled with further successful capital raisings will enable the Company to fund its activities for at least the next twelve months from the date of signing these financial statements. However, as the Company is in its early commercialisation stage, there is uncertainty associated with the key assumptions in those cash flow projections.

Any inability to obtain these additional cash inflows may have a material adverse effect on the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary if the Company does not continue as a going concern.

(t) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(u) Earnings per share

Basic earnings per share is calculated as net profit/loss attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/loss attributable to members of the Company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

| NOTE 2: REVENUE | Note | 2008 \$ | 2007 \$ |
|--|------|------------------|------------------|
| Operating activities | | | |
| Sale of goods | | 37,553 | 28,170 |
| Interest received on deposits | | 67,848 | 96,338 |
| Income – government assistance | | 159,850 | 10,850 |
| | | <u>265,251</u> | <u>135,358</u> |
| | | | |
| NOTE 3: EXPENSES | | | |
| Loss before income tax benefit tax has been determined after charging as expenses: | | | |
| Depreciation | | | |
| Property, plant and equipment | | 204,747 | 218,465 |
| | | <u>204,747</u> | <u>218,465</u> |
| | | | |
| Borrowing costs | | | |
| Interest expense | | 46,097 | 63,696 |
| | | <u>46,097</u> | <u>63,696</u> |
| | | | |
| Share based payments | | | |
| Issue of options for services provided | 15 | 109,822 | 28,652 |
| Issue of shares for services provided | 15 | 9,000 | - |
| | | <u>118,822</u> | <u>28,652</u> |
| | | | |
| Other expenses | | | |
| Operating expenses – Collie facility | | 567,892 | 687,287 |
| Auditors' remuneration | 16 | 31,000 | 26,000 |
| Office rent and variables | | 71,838 | 62,358 |
| Public company administration | | 345,904 | 359,925 |
| Travel and accommodation | | 191,117 | 208,277 |
| Payroll (excl Collie facility) | | 750,463 | 1,080,784 |
| Consultancy and professional services | | 337,819 | 461,934 |
| Loss on disposal of assets | | 804 | 9,545 |
| Other expenses | | 128,874 | 89,740 |
| | | <u>2,425,711</u> | <u>2,985,850</u> |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

NOTE 4: INCOME TAX

| | | |
|--|------|------|
| | 2008 | 2007 |
| | \$ | \$ |

Income tax recognised in profit or loss:

The major component of tax benefit is:

| | | |
|--|-----------|-----------|
| R&D tax concession prior year – received in current year | (395,528) | (372,913) |
| R&D tax concession accrued for current year | (250,000) | - |
| | (645,528) | (372,913) |

The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:

| | | |
|---|-------------|-------------|
| Accounting loss before income tax | (2,530,126) | (3,161,305) |
| Income tax (benefit) calculated at 30% | (759,038) | (948,391) |
| Non-deductible expenses | 40,342 | 9,912 |
| R&D tax concession prior year, received in current year | (395,528) | (372,913) |
| R&D tax concession accrued for current year | (250,000) | - |
| Unrecognised tax losses | 782,248 | 1,009,084 |
| Unrecognised deferred tax asset/(liability) | (63,552) | (70,605) |
| Income tax benefit reported in the income statement | (645,528) | (372,913) |

The Company has tax losses arising in Australia of \$6,705,886 (2007: \$6,083,485) that are available indefinitely for offset against future taxable profits of the Company. At 30 June 2008 the Company has not recorded the benefit arising from these tax losses as an asset.

NOTE 5: SEGMENT REPORTING

The Company's business involves the process of extracting and purifying collagen from animal sources in Australia for sale, and as such, currently represents only one reportable business and geographical segment.

NOTE 6: EARNINGS PER SHARE

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

| | | |
|---|-------------|-------------|
| Net loss | (1,884,598) | (2,788,392) |
| Adjustment | - | - |
| Losses used in calculating basic and diluted earnings per share | (1,884,598) | (2,788,392) |

| | | |
|--|-----|-----|
| | No. | No. |
|--|-----|-----|

| | | |
|--|-------------|-------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share: | 184,022,883 | 141,499,739 |
|--|-------------|-------------|

Effect of dilutive securities

| | | |
|---|---|---|
| Share options - It is not considered that the 12,010,000 (2007: 6,830,000) unlisted options on issue and the 64,313,083 (2007: nil) listed options have a dilutive effect on earnings per share as the Company incurred a loss for the year | - | - |
|---|---|---|

| | | |
|--|-------------|-------------|
| Adjusted weighted average number of ordinary shares used in calculating basic and diluted earnings per share | 184,022,883 | 141,499,739 |
|--|-------------|-------------|

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

| NOTE 7: CASH AND CASH EQUIVALENTS | 2008 | 2007 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Current | | |
| Cash at bank | 1,061,797 | 1,253,978 |
| Security deposits | 17,975 | 17,975 |
| | <u>1,079,772</u> | <u>1,271,953</u> |
| Reconciliation of loss for the year to net cash used in operating activities: | | |
| Net loss | (1,884,598) | (2,788,392) |
| Adjustments for non-cash items: | | |
| Depreciation | 204,747 | 218,465 |
| Loss on disposal of asset | 804 | 9,545 |
| Issue of options for services provided | 109,822 | 28,652 |
| Issue of shares for services provided | 9,000 | - |
| (Increase)/decrease in assets: | | |
| Receivables | (307,538) | (21,381) |
| Inventories | (75,999) | (109,718) |
| Other assets | (17,370) | (18,313) |
| Increase/(decrease) in liabilities: | | |
| Trade creditors | (69,860) | 83,771 |
| Net cash used in operating activities | <u>(2,030,992)</u> | <u>(2,597,371)</u> |
| NOTE 8: CURRENT TRADE AND OTHER RECEIVABLES | | |
| Trade receivable | 4,194 | - |
| Tax receivable | 276,195 | 45,244 |
| Accrued income | 72,393 | - |
| | <u>352,782</u> | <u>45,244</u> |
| NOTE 9: INVENTORIES | | |
| Raw materials | 36,311 | 42,899 |
| Finished goods | 165,387 | 82,800 |
| | <u>201,698</u> | <u>125,699</u> |
| NOTE 10: CURRENT OTHER ASSETS | | |
| Prepayments | <u>61,088</u> | <u>43,718</u> |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

| NOTE 11: OTHER FINANCIAL ASSETS | Note | 2008 \$ | 2007 \$ |
|---|------|------------------|------------------|
| Non-current | | | |
| Security deposits | | 240,000 | 380,000 |
| | | <u>240,000</u> | <u>380,000</u> |
| Represents the term deposits held as security in relation to hire purchase liabilities entered into with National Australia Bank. | | | |
| NOTE 12: PROPERTY, PLANT AND EQUIPMENT | | | |
| At cost | | 3,092,481 | 3,067,496 |
| Accumulated depreciation | | (768,352) | (564,956) |
| | | <u>2,324,129</u> | <u>2,502,540</u> |
| Movements in carrying amounts: | | | |
| Balance at the beginning of the year | | 2,502,540 | 2,577,574 |
| Additions | | 27,139 | 161,612 |
| Disposals | | (803) | (18,181) |
| Depreciation expense | | (204,747) | (218,465) |
| Carrying amount at the end of the year | | <u>2,324,129</u> | <u>2,502,540</u> |
| NOTE 13: TRADE AND OTHER PAYABLES (CURRENT) | | | |
| Trade creditors and accruals | | 308,350 | 371,922 |
| Annual leave accrual | | 16,208 | 22,496 |
| | | <u>324,558</u> | <u>394,418</u> |
| NOTE 14: INTEREST BEARING LOANS AND BORROWINGS | | | |
| Current | | | |
| Insurance premium funding | | 18,550 | 17,593 |
| Hire purchase liability | 18 | 178,036 | 164,175 |
| | | <u>196,586</u> | <u>181,768</u> |
| Non-current | | | |
| Hire purchase liability | 18 | 272,587 | 450,623 |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

| NOTE 15: ISSUED CAPITAL AND RESERVES | 2008 No. | 2007 No. | 2008 \$ | 2007 \$ |
|--|-------------|-------------|------------|------------|
| Ordinary shares issued and fully paid | | | | |
| Balance at the beginning of the financial year | 160,617,433 | 122,639,515 | 10,670,320 | 7,857,052 |
| Movements during the year: | | | | |
| Private placement – August 2006 | - | 18,395,927 | - | 1,839,593 |
| Share purchase plan – August 2006 | - | 1,090,000 | - | 109,000 |
| Private placement – May 2007 | - | 18,491,991 | - | 1,109,519 |
| Private placement – July 2007 | 7,264,675 | - | 435,881 | - |
| Employee Share Plan – January 2008 | 257,139 | - | 9,000 | - |
| Private placement – March 2008 | 24,800,003 | - | 421,600 | - |
| Rights Issue – May 2008 | 64,313,083 | - | 1,157,635 | - |
| Shares issued during the year | 96,634,900 | 37,977,918 | 2,024,116 | 3,058,112 |
| Share issue costs | - | - | (125,947) | (244,844) |
| Balance at the end of the financial year | 257,252,333 | 160,617,433 | 12,568,489 | 10,670,320 |

Terms and conditions of contributed equity:

Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Share options – unlisted

| Expiry date | Exercise price | Opening Balance No. | Issued during the year No. | Forfeited / expired during the year No. | Closing Balance No. |
|--------------|----------------|------------------------|-------------------------------|---|------------------------|
| 24 Feb 2008 | \$0.25 | 390,000 | - | (390,000) | - |
| 25 Feb 2008 | \$0.25 | 640,000 | - | (640,000) | - |
| 27 May 2009 | \$0.25 | 650,000 | - | (260,000) | 390,000 |
| 30 Sept 2008 | \$0.15 | 650,000 | - | - | 650,000 |
| 31 Mar 2009 | \$0.10 | 650,000 | - | - | 650,000 |
| 17 May 2009 | \$0.10 | 2,200,000 | - | - | 2,200,000 |
| 02 Aug 2009 | \$0.10 | 350,000 | - | - | 350,000 |
| 09 Feb 2010 | \$0.10 | 1,300,000 | - | (260,000) | 1,040,000 |
| 30 Jul 2007 | \$0.10 | - | 650,000 | (520,000) | 130,000 |
| 21 Nov 2007 | \$0.10 | - | 2,000,000 | (2,000,000) | - |
| 30 Jun 2011 | \$0.04 | - | 6,600,000 | - | 6,600,000 |
| | | 6,830,000 | 9,250,000 | (4,070,000) | 12,010,000 |

The Company has an Employee Share Option Plan under which options to subscribe for the Company's shares have been granted to certain executives and other employees (refer Note 21).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

NOTE 15: ISSUED CAPITAL AND RESERVES (CONT'D)

Share options – listed

| Expiry date | Exercise price | Balance at 1 July 2007 No. | Issued during the year No. | Forfeited / expired during the year No. | Balance at 30 June 2008 No. |
|-----------------|----------------|-------------------------------|-------------------------------|---|--------------------------------|
| 31 October 2009 | \$0.04 | - | 64,313,083 | - | 64,313,083 |
| | | - | 64,313,083 | - | 64,313,083 |

The Company issued 64,313,083 ordinary shares at 1.8 cents per fully paid share and 64,313,083 listed options expiring 31 October 2009 exercisable at 4 cents issued under the Company's prospectus dated 4 April 2008 which were allotted on 9 May 2008.

| Reserves | 2008 \$ | 2007 \$ |
|--|------------|------------|
| Employee equity benefits reserve at beginning of year | 679,350 | 650,698 |
| Movements in employee equity benefits reserve during the year: | | |
| Share based payment | 109,822 | 28,652 |
| Employee equity benefits reserve at end of year | 789,172 | 679,350 |

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 21 for further details of this plan.

Accumulated losses

| | | |
|---|-------------|-------------|
| Accumulated losses at the beginning of the financial year | (8,007,325) | (5,218,933) |
| Movements in accumulated losses during the year: | | |
| Net loss attributed to members | (1,884,598) | (2,788,392) |
| Accumulated losses at the end of the financial year | (9,891,923) | (8,007,325) |

NOTE 16: AUDITORS' REMUNERATION

The auditor of CollTech Australia Limited is HLB Mann Judd.

Amounts received or due and receivable by HLB Mann Judd for:

| | | |
|---|--------|--------|
| An audit or review of the financial reports of the entity | 31,000 | 26,000 |
|---|--------|--------|

NOTE 17: FINANCIAL INSTRUMENTS

Capital risk management

In employing its capital (or net equity as it is referred to on the balance sheet) the Company seeks to ensure that it will be able to continue as a going concern and in time provide value to shareholders by way of increased market capitalisation or dividends. In the current stage of its development, the company has invested its available capital heavily to provide working capital to enable the Company to advance the research and development of its medical grade collagen and for existing and ongoing working capital requirements specifically to fund focused sales and marketing activities. As is appropriate at this stage the majority of the Company's funding is by equity.

As it moves forward to commercialise these intangible assets, the Company will adjust its capital structure to support its operational and strategic objectives, by raising additional capital or taking on debt, as is seen appropriate from time to time given the overriding objective of creating shareholder value. In this regard, the board will consider each step forward in the development of the Company on its merits and in the context of the then capital markets, in deciding how to structure capital raisings.

Net fair values

The net fair values of all monetary financial assets and liabilities approximate their carrying values. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the Balance Sheet and Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 17: FINANCIAL INSTRUMENTS (CONT'D)

Categories of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments recognised in the financial statements:

| | 2008 Interest Rate % | 2007 Interest Rate % | 2008 \$ | 2007 \$ |
|---------------------------|-------------------------|-------------------------|------------------|------------------|
| Financial assets: | | | | |
| Cash and cash equivalents | 7.1 | 5.3 | 1,319,772 | 1,651,953 |
| Loans and receivables | nil | nil | 352,782 | 45,244 |
| | | | <u>1,672,554</u> | <u>1,697,197</u> |
| Financial liabilities: | | | | |
| Trade and other payables | nil | nil | 324,558 | 394,418 |
| Borrowings | 8.3 | 8.1 | 469,173 | 632,391 |
| | | | <u>793,731</u> | <u>1,026,809</u> |

Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates. The Company's classes of financial assets and financial liabilities, is as follows:

| | Interest rate % | Less than 1 month \$ | 1 – 3 months \$ | 3 months - 1 year \$ | 1 – 5 years \$ |
|---------------------------|-----------------------|----------------------------|-----------------------|----------------------------|----------------------|
| 2008 | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | 7.1 | 1,319,772 | - | - | - |
| Financial liabilities: | | | | | |
| Borrowings | 8.3 | 18,851 | 38,126 | 139,609 | 272,587 |
| 2007 | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | 5.3 | 1,651,953 | - | - | - |
| Financial liabilities: | | | | | |
| Borrowings | 8.1 | 16,812 | 33,493 | 131,463 | 450,623 |

Interest rate risk sensitivity analysis

Financial liabilities – the majority of the financial liability relates to long term funding of its plant and equipment arranged in 2004 by using a fixed interest rate hire purchase loan. Hence, the Company is not exposed to interest rate fluctuations on its borrowings.

Financial assets – the company is exposed to increases and decrease in the interest rate it earns on its cash and cash equivalents, although considered immaterial. At reporting date if interest rates had been 50 basis points higher or lower on these assets and all other variables were held constant, the Company's net profit would increase by \$4,800 and decrease by \$4,800 (2007 : \$9,100).

The Company is not sensitive to interest rates as it is funded primarily by equity.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in relation to each class of recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Balance Sheet and Notes to the Financial Statements.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

NOTE 18: COMMITMENTS

| Note | 2008 \$ | 2007 \$ |
|------|------------|------------|
|------|------------|------------|

Hire purchase commitments

Commitments are payable as follows:

| | | |
|---|----------|----------|
| Within the period of 12 months | 208,138 | 208,138 |
| Within the period of 12 months to 5 years | 281,253 | 489,391 |
| Minimum hire purchase payments | 489,391 | 697,529 |
| Less future finance charges | (38,768) | (82,731) |
| Total hire purchase liability | 450,623 | 614,798 |

Included in the financial statements as follows:

| | | | |
|-----------------------|----|---------|---------|
| Current liability | 14 | 178,036 | 164,175 |
| Non-current liability | 14 | 272,587 | 450,623 |
| | | 450,623 | 614,798 |

Operating lease commitments

Commitments for minimum payments in relation to non-cancellable operating leases for rental of office premises and the Collie extraction facility site are payable as follows:

| | | |
|---|---------|---------|
| Within the period of 12 months | 23,109 | 71,853 |
| Within the period of 12 months to 5 years | 36,470 | 28,141 |
| Later than 5 years | 101,116 | 108,613 |
| | 160,695 | 208,607 |

Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at balance date but not recorded as liabilities, payable:

| | | |
|--------------------------------|---------|---------|
| Within the period of 12 months | 125,306 | 108,592 |
|--------------------------------|---------|---------|

NOTE 19: RELATED PARTY TRANSACTIONS

Transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated, as follows:

Specified directors' and named executives' remuneration

Details of specified directors' and named executives' remuneration are disclosed in the Remuneration Report section of the Directors' Report.

Transactions with specified directors and named executives

- (i) The Company has a Consultancy Agreement with Mr Stephen Carter. The services are provided for a consultancy fee of \$1,000 per day (plus GST). During the financial year the Company paid consulting fees to Mr Carter of \$51,400 (2007: \$79,600).
- (ii) The Company used the services of Mercatus Capital Pte to assist with raising of capital via a rights issue. Mr Govindan and Dr Fathil are Directors of Mercatus Capital. During the financial year and prior to Mr Govindan and Dr Fathil becoming directors of CollTech, the Company paid fees to Mercatus Capital of \$34,729 (2007: \$Nil). The services were paid for at commercial rates.
- (iii) Prior to becoming a director of CollTech Mr Govindan provided services to CollTech to assist with raising funds via a private placement. The services were paid for at commercial rates. During the financial year the Company paid broker fees to Mr Govindan of \$15,300 (2007: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20: EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

NOTE 21: SHARE BASED PAYMENT PLANS

The Company believes that encouraging its directors and executives to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's Employee Share Option Plan and the Company's Employee Share Plan.

Employee share option plan

The Company has adopted the CollTech Employee Share Option Plan for the purpose of recognising the efforts of, and providing incentives to, employees of the Company. Options are granted under the Employee Share Option Plan for no consideration. Options are granted for a three year period and entitlements to the options are vested and made exercisable in defined tranches to reflect the Company's development strategy and to align the interests of directors and executives to those of shareholders. Options are granted to directors and executives taking into account a number of factors, including the amount and term of options previously granted, base salary and competitive factors.

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

| Movement in unlisted share options: | 2008 No. | 2008 Weighted average exercise price | 2007 No. | 2007 Weighted average exercise price |
|--|-------------|--|-------------|--|
| Outstanding at the beginning of the year | 6,830,000 | \$0.14 | 10,710,000 | \$0.18 |
| Granted during the year | 9,250,000 | \$0.06 | 1,650,000 | \$0.10 |
| Forfeited during the year | (3,040,000) | \$0.11 | (260,000) | \$0.25 |
| Exercised during the year | - | - | - | - |
| Expired during the year | (1,030,000) | \$0.25 | (5,270,000) | \$0.20 |
| Outstanding at the end of the year | 12,010,000 | \$0.07 | 6,830,000 | \$0.14 |
| Exercisable at the end of the year | 11,750,000 | | 4,812,000 | |

Details of share options held by employees (including directors) and granted as remuneration outstanding at balance date:

| Grant Date | Expiry date | Exercise price | 2008 No. | 2007 No. |
|---|----------------|-------------------|-------------|-------------|
| 28 May 2004 | 27 May 2009 | \$0.25 | 390,000 | 650,000 |
| 24 Feb 2005 | 24 Feb 2008 | \$0.25 | - | 390,000 |
| 25 Feb 2005 | 25 Feb 2008 | \$0.25 | - | 640,000 |
| 30 Sep 2005 | 30 Sep 2008 | \$0.15 | 650,000 | 650,000 |
| 31 Mar 2006 | 31 Mar 2009 | \$0.10 | 650,000 | 650,000 |
| 17 May 2006 | 17 May 2009 | \$0.10 | 2,200,000 | 2,200,000 |
| 02 Aug 2006 | 02 Aug 2009 | \$0.10 | 350,000 | 350,000 |
| 09 Feb 2007 | 09 Feb 2010 | \$0.10 | 1,040,000 | 1,300,000 |
| 30 Jul 2007 | 30 Jul 2010 | \$0.10 | 130,000 | - |
| 30 Jun 2008 | 30 Jun 2011 | \$0.04 | 6,600,000 | - |
| | | | 12,010,000 | 6,830,000 |
| Weighted average fair value of options as at grant date | | | 2.11 cents | 2.59 cents |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 21: SHARE BASED PAYMENT PLANS (CONT'D)

Employee share option plan (cont'd)

The following table lists the inputs to the model used to value the options granted during the year:

| | 2008 | 2007 |
|--|-----------|------------|
| Volatility | 150% | 75% |
| Risk-free interest rate | 6.7% | 5.7% |
| Expected life of option | 3 years | 3 years |
| Exercise price | 5.7 cents | 14.2 cents |
| Weighted average share price at grant date | 2.9 cents | 8.6 cents |

The carrying amount of the reserve relating to the cash-settled share-based payment at 30 June 2008 is \$789,172 (2007: \$679,350).

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The fair value of the cash-settled options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services is recognised over the expected vesting period. Until the liability is settled it is re-measured at each reporting date with changes in fair value recognised in profit or loss.

Employee share plan

The CollTech Employee Share Plan was established by the Company to show its recognition of employees' contribution by providing an opportunity to share in the future growth and profitability of the Company. Eligible employees were given the opportunity to receive up to \$1,000 worth of shares at no cost to them.

During the year the company issued 257,139 shares (28,571 shares each to nine employees, at a face value of 3.5cents) for no consideration.

The expense recognised in the income statement in relation to share-based payments is disclosed in Note 3.

NOTE 22: DIRECTORS' AND EXECUTIVES' DISCLOSURES

Details of key management personnel

The following are the persons referred to as key management personnel

Directors:

| | | |
|-----------------------|------------------------|-----------------------------|
| Mr Stephen Carter | Non-executive Chairman | |
| Mr Michael Pixley | Non-executive Director | |
| Mr Ravindran Govindan | Non-executive Director | - Appointed 30 May 2008 |
| Dr Fathil Bin Mohamed | Non-executive Director | - Appointed 15 May 2008 |
| Dr Anna Kluczevska | Non-executive Director | - Resigned 21 November 2007 |
| Mr Gregg Mastroianni | Non-executive Director | - Resigned 30 May 2008 |

Executives:

| | |
|-------------------|---|
| Dr Deborah Cooper | General Manager |
| Mr Glen Brune | Company Secretary / Chief Financial Officer |

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

NOTE 22: DIRECTORS' AND EXECUTIVES' DISCLOSURES (CONT'D)

Unlisted option holdings of key management personnel:

The numbers of options over ordinary shares (unlisted) in the Company held during the financial year by each director of CollTech and other key management personnel of the Company, including their personally related parties, are set out below.

| | Opening Balance | Granted as remuneration | Options exercised (i) | Net change other (ii) | Closing Balance | Vested as at 30 June 2008 | | |
|--|-----------------|-------------------------|-----------------------|-----------------------|-----------------|---------------------------|-------------|-----------------|
| | | | | | | Total | Exercisable | Not exercisable |
| 2008 | | | | | | | | |
| <u>Directors:</u> | | | | | | | | |
| Mr Stephen Carter | 2,200,000 | - | - | - | 2,200,000 | 2,200,000 | 2,200,000 | - |
| Mr Gregg Mastroianni | - | 2,000,000 | - | (2,000,000) | - | - | - | - |
| | 2,200,000 | 2,000,000 | - | (2,000,000) | 2,200,000 | 2,200,000 | 2,200,000 | - |
| <u>Other key management personnel:</u> | | | | | | | | |
| Dr Deborah Cooper | 1,000,000 | 3,000,000 | - | - | 4,000,000 | 4,000,000 | 4,000,000 | - |
| Mr Glen Brune | 650,000 | 2,000,000 | - | - | 2,650,000 | 2,390,000 | 2,390,000 | 260,000 |
| | 1,650,000 | 5,000,000 | - | - | 6,650,000 | 6,390,000 | 6,390,000 | 260,000 |
| | 3,850,000 | 7,000,000 | - | (2,000,000) | 8,850,000 | 8,590,000 | 8,590,000 | 260,000 |
| 2007 | | | | | | | | |
| <u>Directors:</u> | | | | | | | | |
| Mr Stephen Carter | 2,200,000 | - | - | - | 2,200,000 | 2,200,000 | 2,200,000 | - |
| Mr Michael Pixley | 2,900,000 | - | - | (2,900,000) | - | - | - | - |
| Dr Anna Kluczevska | 870,000 | - | - | (870,000) | - | - | - | - |
| Dr John Snowden | 2,900,000 | - | - | (2,900,000) | - | - | - | - |
| | 8,870,000 | - | - | (6,670,000) | 2,200,000 | 2,200,000 | 2,200,000 | - |
| <u>Other key management personnel:</u> | | | | | | | | |
| Dr Deborah Cooper | 650,000 | 350,000 | - | - | 1,000,000 | 740,000 | 740,000 | 260,000 |
| Mr Glen Brune | - | 650,000 | - | - | 650,000 | 130,000 | 130,000 | 520,000 |
| Dr Leearne Hinch | 1,300,000 | - | - | (260,000) | 1,040,000 | 1,040,000 | 1,040,000 | - |
| Mr Mathew Whyte | 650,000 | - | - | - | 650,000 | 390,000 | 390,000 | 260,000 |
| | 2,600,000 | 1,000,000 | - | (260,000) | 3,340,000 | 2,300,000 | 2,300,000 | 1,040,000 |
| | 11,470,000 | 1,000,000 | - | (6,930,000) | 5,540,000 | 4,500,000 | 4,500,000 | 1,040,000 |

(i) No shares have been issued on exercise of any remuneration options.

(ii) Includes forfeitures and expires.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

NOTE 22: DIRECTORS' AND EXECUTIVES' DISCLOSURES (CONT'D)

Listed option holdings of key management personnel

The number of listed options in the Company held during the financial year by each director of CollTech and other key management personnel of the Company, including their personally related parties, are set out below:

| | Balance 1 July 2007 | Options exercised | Net change other | Balance 30 June 2008 |
|--|------------------------|----------------------|---------------------|-------------------------|
| 2008 | | | | |
| <u>Directors:</u> | | | | |
| Mr Stephen Carter | - | - | 257,481 | 257,481 |
| Mr Michael Pixley | - | - | 333,334 | 333,334 |
| Mr Ravindran Govindan | - | - | 7,433,490 | 7,433,490 |
| Dr Fathil Bin Mohamed | - | - | 27,777,778 | 27,777,778 |
| | - | | 35,802,083 | 35,802,083 |
| <u>Other key management personnel:</u> | | | | |
| Dr Deborah Cooper | - | - | - | - |
| Mr Glen Brune | - | - | 112,364 | 112,364 |
| | - | | 112,364 | 112,364 |
| | - | | 35,914,447 | 35,914,447 |

The Company had not issued unlisted options prior to this year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

NOTE 22: DIRECTORS' AND EXECUTIVES' DISCLOSURES (CONT'D)

Share holdings of key management personnel

The number of shares in the Company held during the financial year by each director of CollTech and other key management personnel of the Company, including their personally related parties, are set out below:

| | Opening Balance | On exercise of options | Net change other | Closing Balance |
|--|--------------------|---------------------------|---------------------|--------------------|
| 2008 | | | | |
| <u>Directors:</u> | | | | |
| Mr Stephen Carter | 421,519 | - | 257,481 | 679,000 |
| Mr Michael Pixley | 6,600,000 | - | 1,333,334 | 7,933,334 |
| Mr Ravindran Govindan | - | - | 13,667,286 | 13,667,286 |
| Dr Fathil Bin Mohamed | - | - | 30,718,955 | 30,718,955 |
| Dr Anna Kluczevska | 132,600 | - | (32,600) | 100,000 |
| Mr Gregg Mastroianni | - | - | - | - |
| | 7,154,119 | - | 45,944,456 | 53,098,575 |
| <u>Other key management personnel:</u> | | | | |
| Dr Deborah Cooper | - | - | 28,571 | 28,571 |
| Mr Glen Brune | 678,337 | - | (200,311) | 478,026 |
| | 678,337 | - | (171,740) | 506,597 |
| | 7,832,456 | - | 45,772,716 | 53,605,172 |
| 2007 | | | | |
| <u>Directors:</u> | | | | |
| Mr Stephen Carter | 75,000 | - | 346,519 | 421,519 |
| Mr Michael Pixley | 6,600,000 | - | - | 6,600,000 |
| Dr Anna Kluczevska | 132,600 | - | - | 132,600 |
| Mr Gregg Mastroianni | - | - | - | - |
| Dr John Snowden | 7,200,000 | - | (200,000) | 7,000,000 |
| | 14,007,600 | - | 146,519 | 14,154,119 |
| <u>Other key management personnel:</u> | | | | |
| Dr Deborah Cooper | - | - | - | - |
| Mr Glen Brune | - | - | 678,337 | 678,337 |
| Dr Leeorne Hinch | 982,641 | - | 560,000 | 1,542,641 |
| | 982,641 | - | 1,238,337 | 2,220,978 |
| | 14,990,241 | - | 1,384,856 | 16,375,097 |

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

Loans to key management personnel

There are no loans to key management personnel.

Directors' Declaration

1. In the opinion of the directors of the Company:
 - (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the Company's financial position as at 30 June 2008 and of the performance for the year ended on that date; and
 - (ii) Comply with Accounting Standards and *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2008.

This declaration is made in accordance with a resolution of the Board of Directors.



Mr Stephen Carter

Chairman

September 18, 2008



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of

COLLTECH AUSTRALIA LIMITED

We have audited the accompanying financial report of CollTech Australia Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration as set out on pages 21 to 42.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Email: hlb@hlbwa.com.au. Website: <http://www.hlb.com.au>

Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of  International, a world-wide organisation of accounting firms and business advisers

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

- (a) the financial report of CollTech Australia Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 16 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of CollTech Australia Limited for the year ended 30 June 2008 complies with section 300A of the *Corporations Act 2001*.

Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(s) in the financial report which indicates that the company's existing projections show that the company will be able to fund its activities for at least twelve months from the date of the financial report, however, as the company is in its early commercialisation stage, there is uncertainty associated with the key assumptions in those projections. If the company is unable to generate additional cash flows, there is significant uncertainty whether the company will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



HLB MANN JUDD
Chartered Accountants



Perth, Western Australia
18 September 2008

W M CLARK
Partner

Additional Information for Listed Public Companies

Additional information included in accordance with the Listing Rules of the Australian Stock Exchange Limited.

The information is current as at August 29, 2008.

Substantial shareholders of CollTech Australia Limited:

| Name of shareholder | Shares held | Listed options held |
|-----------------------|-------------|---------------------|
| Dr Fathil Bin Mohamed | 30,718,955 | 27,777,778 |
| Mr Ravindran Govindan | 13,667,286 | 7,433,490 |
| Mr Kok Wah Ong | 13,411,769 | 5,004,708 |

Distribution of equity – Listed securities:

| Size of holding | Number of shareholders | Number of option holders |
|--------------------|------------------------|--------------------------|
| 1 – 1,000 | 100 | 8 |
| 1,001 – 5,000 | 57 | 21 |
| 5,001 – 10,000 | 110 | 24 |
| 10,001 – 100,000 | 513 | 116 |
| 100,001 – and over | 302 | 32 |
| Total | 1,082 | 201 |

At the date of this report there were 453 shareholders and 131 option holders who held less than a marketable parcel of shares.

Listed securities in CollTech Australia Limited (CAU) are quoted on all member exchanges of the Australian Stock Exchange.

Twenty Largest Security Holders: Issued Shares

| Rank | Name of shareholder | Number of shares | % of issued shares |
|------|---------------------------------------|--------------------|--------------------|
| 1 | Dr Fathil Bin Mohamed | 30,718,955 | 11.94 |
| 2 | Mr Ravindran Govindan | 13,667,286 | 5.31 |
| 3 | Mr Kok Wah Ong | 13,411,769 | 5.21 |
| 4 | Mr Chris Cuffe & Mrs Natasha Cuffe | 12,833,334 | 4.99 |
| 5 | Lim Ho Kee | 9,000,000 | 3.50 |
| 6 | Bakersfield Holdings Pty Ltd | 7,866,667 | 3.06 |
| 7 | IRSS Nominees (21) Limited | 6,600,000 | 2.57 |
| 8 | Lifescience Securities Limited | 6,000,000 | 2.33 |
| 9 | Millepede International Limited | 5,882,353 | 2.29 |
| 10 | Dr John Snowden & Mrs Pauline Snowden | 5,716,892 | 2.22 |
| 11 | Tristesse Pty Ltd | 5,545,000 | 2.16 |
| 12 | Fairview Holdings Pty Ltd | 3,233,562 | 1.26 |
| 13 | UOB Kay Hian Pte Ltd | 3,233,333 | 1.26 |
| 14 | Cramm Nominees Pty Ltd | 3,100,000 | 1.21 |
| 15 | WSF Pty Ltd | 2,470,000 | 0.96 |
| 16 | Mr John Bulich | 2,415,263 | 0.94 |
| 17 | Mr Michael Trethowan | 2,104,738 | 0.82 |
| 18 | Mr Mohd Fadzli Fathil | 2,000,000 | 0.78 |
| 19 | Jayem Pty Ltd | 1,882,454 | 0.73 |
| 20 | Mr Terence Stott & Mrs Cherrie Stott | 1,503,788 | 0.58 |
| | Total | 139,185,394 | 54.12 |

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (CONT'D)

Twenty Largest Security Holders: Issued Options

| Rank | Name of option holder | Number of options | % of issued options |
|------|--------------------------------------|-------------------|---------------------|
| 1 | Dr Fathil Bin Mohamed | 27,777,778 | 43.19 |
| 2 | Mr Ravindran Govindan | 7,433,490 | 11.56 |
| 3 | Lim Ho Kee | 6,000,000 | 9.33 |
| 4 | Mr Chris Cuffe & Mrs Natasha Cuffe | 5,833,334 | 9.07 |
| 5 | Mr Kok Wah Ong | 5,004,708 | 7.78 |
| 6 | Bakersfield Holdings Pty Ltd | 1,966,667 | 3.06 |
| 7 | Mr Terence Stott & Mrs Cherrie Stott | 495,947 | 0.77 |
| 8 | Major Robert Hawkins | 433,334 | 0.67 |
| 9 | Mr Peter Stawski | 397,444 | 0.62 |
| 10 | AJJC Pty Ltd | 370,000 | 0.58 |
| 11 | Jayem Pty Ltd | 345,613 | 0.54 |
| 12 | Dr David Brinsmead Southwell | 343,334 | 0.53 |
| 13 | Avanteos Investments Limited | 333,334 | 0.52 |
| 14 | Ms Neoh Siew Lian | 294,118 | 0.46 |
| 15 | Bakersfield Holding Pty Ltd | 277,778 | 0.43 |
| 16 | Distinctive Holdings Pty Ltd | 251,755 | 0.39 |
| 17 | Mr John Bullich | 238,646 | 0.37 |
| 18 | Enniswood Investments Pty Ltd | 233,334 | 0.36 |
| 19 | Mr Graham Matheson | 179,334 | 0.28 |
| 20 | Mr John Bright | 178,500 | 0.28 |
| | Total | 58,388,448 | 90.79 |

Distribution of equity – Unlisted securities:

| ASX Code | Exercise price | Expiry date | Number of options | Number of holders |
|----------|----------------|--------------|-------------------|-------------------|
| CAUAQ | \$0.25 | 27 May 2009 | 390,000 | 1 |
| CAUAS | \$0.15 | 30 Sept 2008 | 650,000 | 1 |
| CAUAU | \$0.10 | 31 Mar 2009 | 650,000 | 1 |
| CAUAW | \$0.10 | 17 May 2009 | 2,200,000 | 1 |
| CAUAK | \$0.10 | 2 Aug 2009 | 350,000 | 1 |
| CAUAY | \$0.10 | 9 Feb 2010 | 1,040,000 | 2 |
| CAUAM | \$0.10 | 30 Jul 2010 | 130,000 | 1 |
| CAUAI | \$0.04 | 30 Jun 2011 | 6,600,000 | 4 |
| CAUAO | \$0.04 | 22 Aug 2011 | 500,000 | 2 |
| | Total | | 12,510,000 | |