



 **COLLTECH ANNUAL REPORT**
biomaterials innovation FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006 | ACN 094 515 992

2006

CORPORATE DIRECTORY

Directors

Mr STEPHEN CARTER
CHAIRMAN

Dr ANNA KLUCZEWSKA
NON-EXECUTIVE DIRECTOR

Dr JOHN SNOWDEN
NON-EXECUTIVE DIRECTOR

Mr MICHAEL PIXLEY
EXECUTIVE DIRECTOR

Company Secretary

GLEN BRUNE
CFO/COMPANY SECRETARY

Registered Office Principal place of business

Ground Floor
76 Kings Park Road
West Perth WA 6872

Tel: (+618) 9426 3900
Fax: (+618) 9426 3909

Share Register

Computershare Investor
Services Pty Ltd
Level 2
45 St Georges Terrace
PERTH WA 6000

Tel: (+618) 9323 2000
Fax: (+618) 9323 2033

Bankers

National Australia Bank
Perth Central BBC
1/50 St Georges Terrace
PERTH WA 6000

Auditors

HLB Mann Judd
15 Rheola Street
WEST PERTH WA 6005

Solicitors

Blakiston & Crabb
1202 Hay Street
WEST PERTH WA 6005

Internet Website

www.colltech.com.au



Annual General Meeting

The board has convened the annual general meeting to be held at 12pm (WST) on the **29th November 2006** at the **Celtic Club**, 48 Ord St West Perth, Perth Western Australia.

CONTENTS



01

Chairman's Report page 02



02

Operations Review page 04



03

Annual Financial Report page 11

It is with great pleasure that I bring to you this 2005/2006 annual report for CollTech. Whilst I have only been involved with CollTech since January 2006 I am very proud to be your Chairman. The past 9 months have been exciting and rewarding particularly as I have had the pleasure to work closely with the strong, dedicated, capable and committed group of people who make up the whole of your CollTech team.

I thank the outgoing Chairman Mr Michael Blakiston for the vision, guidance and leadership he provided to the board that has enabled CollTech to become the company that we see today.

Below is a synopsis of some of the key events for the year and I direct you to General Manager's Operational Report for a more detailed review of the year's activities.

The Board remains optimistic on CollTech's future. We have set strategic goals and operational milestones and look forward to the ongoing achievement of these goals to ensure maximization of shareholder value. As a team we will remain focused and committed both strategically and operationally to ensure we achieve our milestones in the future.

2005/2006 has been a momentous year for CollTech in its pursuit of success to realise its vision, and a number of core milestones have been achieved, we have made substantial progress with the commissioning of the manufacturing plant, product development breakthroughs for OVICOLL®|C and OVICOLL®|Clear, first sales and strengthening of the core management team.

In the area of our human resource capability we have engaged a number of talented individuals both at board and executive level. These individuals bring a wealth of world class international experience to the company in the relevant fields of research, development, operations and corporate finance.

Our Intellectual property (IP) position has been significantly strengthened with granting of patents in the key jurisdictional areas of Australia, New Zealand and South Africa.

We embarked on a strategic review of the direction of CollTech and made the very positive move to focus our resources on the lower volume, high value, high margin cosmetic and bio-medical products and not the high volume, low value, low margin food products. This change in tactics has helped the CollTech team and is only one of a number of positive actions taken during the second half of the financial year that has taken the company from being behind its in development program to now being nearly six months in front of its bio-medical development program. I would like to thank our new

CSO Dr. Deborah Cooper and her team for the outstanding work that they have carried out in this area.

These product development breakthroughs have enabled CollTech to provide product to potential customers and to make our first sales in July of this year. I would like to thank our General Manager Dr. Leearne Hinch for the enormous effort that she has put in over the past 12 months. I would also like to thank the whole CollTech Team and my fellow board members for their commitment, drive and enthusiasm during this past 12 months.

CollTech is committed to transparency and good corporate governance. The company has embraced the ASX guidelines and will continue to review its systems to ensure ongoing compliance. CollTech has initiated the development of an ISO9000 and GMP Quality System and will proceed with these projects to accreditation. The Board are committed to ensuring the company continues to operate in a moral and ethical manner and to remain a good corporate citizen.

Finally I would like to thank all of our shareholders for their support during the past 12 months, both those that have been with CollTech since the beginning and those that have joined us in the past 12 months and trust that you all share my enthusiasm for the company.

Stephen Carter
CHAIRMAN



02 OPERATIONS REVIEW

It has been a year of success and steady achievement for CollTech with the completion of process development and commissioning projects to enable commercial production of the Company's first product, OVICOLL®|C cosmetic collagen, from its new WA-based collagen production facility.



FINANCIAL RESULT

During the period CollTech completed the commissioning of its WA-based collagen production facility and continued to commercialise its unique OVICOLL® ovine collagen products for cosmetic applications. The Company also conducted additional research and development into future biomedical collagen products for research and medical applications.

The net loss after income tax for the reporting period ended 30 June 2006 was \$2,087,921 up 34.8% on the previous year (2005: \$1,549,125). In addition to the extensive research and development on its OVICOLL® ovine collagen products the full year loss included \$688,589 (2005 \$470,382) in commissioning costs and upgrades for the WA-based collagen production facility.

Revenues from ordinary activities were \$171,338 (2005:\$179,225). The majority of the revenue is from interest received. The Company had no sales revenue in FY06 as it had not commenced commercial production or sales of its ovine collagen.

STRATEGIC INITIATIVES

A strategic review of the Company's operations during the year saw the Company implement a major process development project to commission its collagen production facility, and change direction from the production of high volume, low margin collagen food products to low volume, high margin cosmetic and biomedical products.

The Company successfully raised \$2.2M via a private placement and Share Purchase Plan (SPP) in September 2005 to fund these activities and implemented a recruitment program during the year to strengthen its Board and management, which included the appointments of Mr Stephen Carter as Chairman and Dr Deborah Cooper as Chief Scientific Officer (CSO), and the promotion of Dr Learne Hinch to General Manager.

This review and the appointment of key management and operating staff has seen CollTech reposition itself from tracking behind schedule to being 6-months ahead of schedule for its biomedical program.

MARKETING AND SALES DEVELOPMENTS

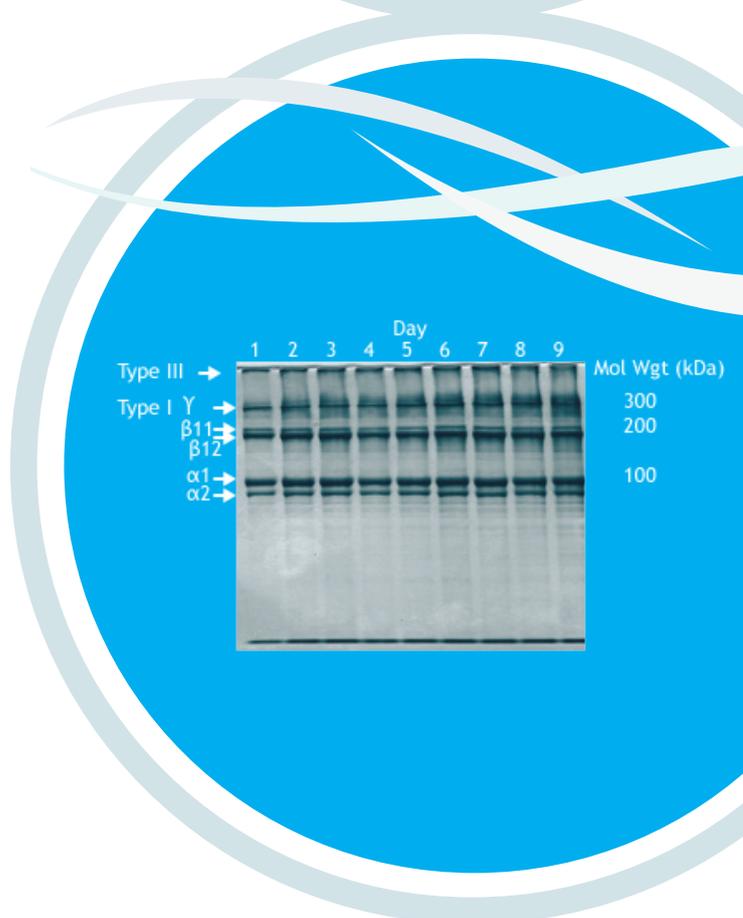
OVICOLL® COLLAGEN PRODUCTS

Since the advent of Mad Cow Disease (BSE) there has been a market need for a safe and acceptable collagen alternative to replace bovine collagen used in existing collagen-based healthcare products. CollTech's Australian-produced ovine (sheep) collagen is well placed to exploit this market need.

OVICOLL® ovine collagen has many advantages over bovine, marine and porcine sources of collagen, including being disease-free, fully traceable and culturally acceptable by Muslim, Jewish and Hindu populations.

Advantages of OVICOLL® ovine collagen include:

- **Disease-free:** High quality Australian collagen sourced from veterinary certified TSE (Transmissible Spongiform Encephalopathy) -free sheep
- **Safe and natural active ingredient:** Suitable for a wide range of food, cosmetic and medical applications
- **Excellent moisturiser:** The triple helix structure of native collagen provides excellent moisturising and film-forming properties for cosmetic applications
- **High purity:** High-purity biomedical collagen with biocompatible, hypoallergenic and cell-adhesive properties for medical applications
- **Stability at room temperature:** High hydroxyproline content increases stability at room temperature
- **Cultural acceptance:** Religious and cultural acceptance of ovine collagen by Muslim, Jewish and Hindu populations
- **Quality-assured traceability:** Fully traceable and ISO compliant



02 OPERATIONS REVIEW



CollTech's Australian-produced OVICOLL® ovine collagen is a natural, safe (TSE-free), traceable and culturally acceptable collagen for use in a wide range of cosmetic and medical applications. CollTech is currently marketing OVICOLL®|C for cosmetic applications and has several products in development for the global cosmetic and medical markets:

PRODUCT	OVICOLL® C	OVICOLL® Clear	OVICOLL® R	OVICOLL® M
Development stage	Marketed	Planned launch Dec-06	Development	Development
Grade	Cosmetic	Topical pharmaceutical	Research	Medical
Application	Skincare, toiletries and haircare	Premium cosmetics & cosmeceuticals	Tissue-scaffold & other research purposes	Woundcare, tissue engineering, cell/drug delivery, & implants
Protein type	Soluble I/III	Soluble I/III	Soluble I	Soluble I, fibrillar I/III
Source	Sheep (ovine) skin	Sheep (ovine) skin	Sheep (ovine) skin	Sheep (ovine) skin
Form / appearance	Cloudy solution	Clear & odourless solution	Clear solution	Gel, sponge, membrane, solution
Protein %	1.0	1.0	0.3	-
Hydroxyproline %	>12% of protein	>12% of protein	>12% of protein	>12% of protein
Purity %	>90	>95	>98	>98
Packaging	1 & 20kg	1 & 20kg	50mL	
Storage	< 20 °C	< 20 °C	2-8 °C	2-8 °C

COLLAGEN MARKETS

Collagen is the major structural protein found in human and animal connective tissues and is widely accepted as a safe and natural biomaterial for the manufacture of a broad range of collagen-based food, cosmetic and medical products. Collagen-based products extend from sausage casings to nutraceuticals and from cosmetics to cosmeceuticals and wound dressings.

CollTech's business strategy is to target the high-value cosmetic and medical markets with its unique OVICOLL® ovine collagen products.

COSMETICS MARKET: The global cosmetics market is a US\$157⁽¹⁾ billion a year business and includes product segments for skincare, colour cosmetics, haircare, cosmeceuticals and toiletries. The cosmetics market is expected to grow at 4% annually, driven by shifting demographics, increasing affluence and the aging population's demand for natural health and beauty products. The highest growth segments include the haircare and cosmeceutical product segments, and the developing marketplaces of China and India.

CollTech will target the skincare and haircare segments which represent over half of industry sales, as well as the fast-growing cosmeceutical segment (11% growth) that relies on the benefits of novel active ingredients for its marketing claims. Collagen's excellent moisturising and film-forming properties make it an ideal ingredient for a wide range of cosmetic applications including moisturisers, sunscreens, face masks, anti-aging creams, eye gels and hair shampoo.

CollTech's OVICOLL®|C product is targeted at developing growth markets in Asia including China, India, Taiwan and South Korea, whilst the company's premium cosmetic product OVICOLL®|Clear will be targeted at the mature markets of Europe, USA and Japan.

MEDICAL MARKET: Collagen is a bioactive protein that exhibits biocompatible, biodegradable, hypo-allergenic, haemostatic and cell-adhesive properties that make it an important biomaterial for use in medical applications for woundcare, tissue-engineering, collagen implants and delivery devices.

Wound care is one of the fastest growing markets for collagen-based medical products, with the global advanced woundcare market currently worth over US\$1.8B⁽²⁾ and growing at 10% annually to reach US\$3.1B by 2011.

Collagen is used in woundcare products to actively promote healing by interacting with the wound tissue to initiate haemostasis (stop bleeding), attract inflammatory cells, prevent water loss and infection and increase vascularization and reepithelialization.

Collagen is also used in tissue-engineering applications as a matrix to support cellular growth for repair of damaged skin in traumatic wounds and burns victims and also for repair of cartilage defects in damaged joints. Collagen's innate ability to attach and align skin, bone and cartilage cells enables it to act as a substrate to promote the growth, attachment, differentiation and migration of cells.

Collagen is widely known for its use in dermal implants, a market projected to be worth US\$61M in the US alone in 2005, as an injectable filler to augment lip shape and correct wrinkles. It can also be used for incontinence implants, corneal shields and as an advanced delivery device to deliver drugs to site due to its ability to attach chemicals and proteins to its carbon backbone.

CollTech is currently developing its range of biomedical collagens, which will include OVICOLL®|R for research purposes and OVICOLL®|M for woundcare and tissue-engineering applications.

MARKETING INITIATIVES

Marketing initiatives in FY2006 focused on establishing distribution channels and building sales of the Company's first product OVICOLL®|C to Asian marketplaces. CollTech provided samples of OVICOLL®|C cosmetic collagen to cosmetic ingredient distributors and manufacturers in May-06, to enable product evaluation and subsequent negotiation of sales contracts. Customers used OVICOLL®|C to test formulate collagen-based skincare products, including moisturisers and eye gels, and were pleased with its moisturising and film-forming properties compared to other collagen sources.

CollTech's strategy is to commercialise its OVICOLL® cosmetic collagen products through strategic partnerships with distributors in key cosmetic markets and its OVICOLL® biomedical collagen products through licensing agreements to pharmaceutical and medical device companies in target medical markets.

⁽¹⁾ Business Communications Company. *Chemicals for Cosmetics and Toiletries Connecticut: Business Communications Company Research; 2005.*

⁽²⁾ Frost & Sullivan. *Global Advanced Wound Management Markets; F237-54. California: Frost & Sullivan; 2005.*

02 OPERATIONS REVIEW

MANUFACTURING

The Operations team completed the commissioning of the Company's WA-based collagen production facility in May-06. Commissioning of the production facility and associated equipment facilitated the transfer of production methods from laboratory scale to initial commercial batch sizes. This is a critical stage of commercialisation for a manufacturing company and CollTech is pleased to have this challenging and critical milestone complete.

As part of the transfer of the production process from small-scale to commercial-scale, significant improvements were achieved in the process to reduce fat levels, simplify downstream processing and increase protein purity and concentration of the final product. Following these achievements, CollTech announced commercial production of its OVICOLL®|C cosmetic collagen in Jul-06.

RESEARCH AND DEVELOPMENT

CollTech's R&D activities throughout the year focused on process development and cosmetic product development.

PROCESS DEVELOPMENT

Activities were directed at optimising the production process to enable the world's first commercial production of collagen from sheep (ovine) skin. Extensive trials were conducted to optimise raw material quality, protein yield and purity, and reduce fat levels in the final soluble collagen products.

PRODUCT DEVELOPMENT

Product development in FY2006 focused on developing the technical specifications and final formulations of CollTech's OVICOLL® cosmetic collagen range to meet the safety and quality requirements of our target cosmetic markets.

BIOMEDICAL PROGRAM

Other activities were directed towards development of the Company's higher value biomedical collagens OVICOLL®|R for research purposes and OVICOLL®|M for medical applications.

INTELLECTUAL PROPERTY

CollTech's core patent family entitled 'Collagen and method for producing same' provides market protection for its novel industrial process for the separation, extraction and purification of collagen from sheep and other animal skins until 2023.

During the year, the Australian and New Zealand patents were granted and CollTech had nine (9) other patent

Country	Patent / Application No	Filing Date
Australia	2003229362	Granted
Australia	2005201970 (divisional of 2003229362)	10 May 2005
Canada	2487642	20 May 2003
China	03811115.2	20 May 2003
Europe	03722057.1	20 May 2003
India	3785/DELNP/2004	20 May 2003
Japan	2004-506366	20 May 2003
New Zealand	536193	Granted
New Zealand	540623 (divisional of 536193)	8 June 2005
South Korea	10-2004-7018532	20 May 2003
Taiwan	92113554	20 May 2003
USA	10/514,961	Priority date 21 May 2002 International filing date 20 May 2003 USA filing date Nov-04
South Africa	2004/8715	20 May 2003

applications in various stages in key jurisdictions including

USA, Europe, Japan and China.

SIGNIFICANT SUBSEQUENT EVENTS

In Jul-06, the Company announced the granting of its South African patent, commercial production of its OVICOLL®|C cosmetic collagen and the achievement of its first sales of OVICOLL®|C to cosmetic distributors and manufacturers in the growing Asian market. The Company also announced the signing of its first Heads of Agreement (HOA) for distribution of its OVICOLL® cosmetics products in China. CollTech will continue to strengthen its distribution channels for its OVICOLL® cosmetic collagen products as it enters new markets through partnerships with established cosmetic ingredient distributors and manufacturers.

Additionally, the R&D team, led by Dr Deborah Cooper has made significant progress in the Company's product development program for higher value biomedical collagen having defined and proven reproducibility of the final process to enable clear collagen production. This process is a critical step towards commercialisation of the Company's unique biomedical ovine collagen that will be licensed to pharmaceutical companies for the development and manufacture of collagen-based medical products for woundcare, tissue-engineering and cell/drug delivery. CollTech is now moving to install and commission the process equipment, with the assistance of collagen-experienced experts, in readiness for launch of its OVICOLL®|Clear premium cosmetic product in Dec-06 and its biomedical collagen products in late 2007.

Furthermore, in August the Company successfully completed a \$1.8M placement to institutional and professional investors and raised \$109K via a Share Purchase Plan to strengthen its capital position and fund the advancement of its biomedical program.

The Company also announced the appointments of key executives Stewart Walton as Operations Manager and Glen Brune as CFO/Company Secretary to strengthen the operational and financial leadership of the Company as it moves to commercialisation. Several other appointments were made to strengthen the science, sales and manufacturing teams.

These recent achievements represent important milestones for CollTech towards realising its commercialisation goals for its unique OVICOLL® ovine collagen.

OUTLOOK

The outlook for CollTech is positive with commercial production and sales of the Company's first product OVICOLL®|C underway, the biomedical program tracking 6-months ahead of schedule and the planned launch of OVICOLL®|Clear in Dec-06. CollTech's focus will be to build sales revenue from its OVICOLL® cosmetic collagens and to finalise the development and commercialisation of its OVICOLL® biomedical collagens.

The Company will continue to establish distribution channels and build sales of OVICOLL®|C to Asia and OVICOLL®|Clear to the high-value cosmetics markets in Japan, USA and Europe. It will also seek opportunities to license its technology and biomedical collagens to manufacturing and pharmaceutical partners for the development of collagen-based end-products using its unique ovine collagen.

CollTech has entered an exciting growth phase and looks forward to keeping shareholders informed on the achievement of its milestones in FY2007.

Annual Financial Report for the Financial Year ended 30 June 2006

INDEX

	Page No.
Directors' Report.....	13
Corporate Governance Statement.....	26
Income Statement	29
Balance Sheet	30
Cash Flow Statement	31
Statement of Changes in Equity	32
Notes to the Financial Statements	33
Directors' Declaration.....	58
Independent Audit Report	59
Additional Stock Exchange Information	60

Your directors present their report on CollTech Australia Limited ("CollTech" or "the company") for the financial year ended 30 June 2006.

Directors

The names, qualifications and experience of directors in office during the financial year and until the date of this report are as follows:



Mr Stephen Carter
B.Juris LL.B.

Position : Chairman – Non-Executive (appointed 1 January 2006)

Experience: 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.



Dr Anna Kluczevska
BDSc

Position: Director – Non-Executive (appointed 6 August 2003)

Experience: Dr Kluczevska is a qualified dental surgeon with post-graduate studies in Australia and further certification and training in USA. She was formerly global product manager for Baxter BioSurgery (division of Baxter Healthcare Inc) covering their collagen product portfolio and is currently CEO of AION Diagnostics Inc (subsidiary pSivida).



Dr John Snowden
BSc(Hons), PhD

Position: Director – Non-Executive (appointed 17 December 2002)

Experience: Dr Snowden is a founding Director and the inventor of the CollTech IP. He is an authority on collagen technology with nearly 30 years experience in collagen research at Harvard University, University of London and Australian National University.



Mr Michael Blakiston
B.Juris LL.B.

Position: Chairman – Non-Executive (appointed 27 November 2003 -resigned 31 December 2005)

Experience: Mr Blakiston is a partner of the corporate and resource law firm, Blakiston & Crabb which acts for over 100 public companies. He has legal experience in the resources sector and has been practising law for over 25 years. Mr Blakiston is a director of Platinum Australia Ltd, Axiom Properties Limited, Rox Resources Limited, Aurora Oil & Gas Ltd and Vulcan Resources Ltd. He has extensive commercial experience both in advisory and directorial capacities having been involved in project assessment, structuring and financing, joint ventures and strategic alliances in the resource industry. In addition, Mr Blakiston has extensive experience in initial public offerings, takeovers, mergers and corporate and project fundraisings.



Mr Michael Pixley
BBus

Position: Director - Executive (appointed 28th September, 2006)
Chief Executive Officer (appointed 13 February 2004)

Experience: 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 director of Natural Fuel Ltd and has previously held overseas directorships with Transocean Securities, Co-don Asia Pacific, CPI Inc and Imagine Interactive Pte Ltd.

DIRECTORS' REPORT

Management



Dr Leearne Hinch
BSc BVMS MBA

Position: General Manager (appointed 16 March 2006)

Experience: Dr Hinch has over twelve years management experience in the pharma/ biotechnology industry with strengths in strategic planning, business management and commercialisation. She has previously held senior management positions in business development, sales, marketing and technical services with Chemeq, Virbac and Pedigree Petfoods (division of Mars Inc) prior to commencing with CollTech on 29 November 2004 in the role of Chief Business Officer. Dr Hinch has a Bachelor of Veterinary Medicine and Surgery from Murdoch University and a MBA from Curtin University.



Mr Glen Brune
BBus FCPA MAICD

Position: Company Secretary/Chief Financial Officer (appointed 31 August 2006)

Experience: Mr Brune has over fifteen 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 and processes.



Dr Deborah Cooper
BSc(Hons) MSc PhD

Position: Chief Scientific Officer (appointed 27 July 2005)

Experience: Dr Cooper has more than ten years R&D experience in pharma/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.



Mr Stewart Walton
BSc

Position: Operations Manager (appointed 4 September 2006)

Experience: Mr Walton has significant management experience with strengths in development, manufacturing, engineering and quality assurance gained from over 13 years with pharmaceutical companies Delta West, Pharmacia & Upjohn and Pfizer in Australia and Europe. Mr Walton has led several start-up and revamp projects, and has extensive experience in the specification, purchasing and commissioning of Good Manufacturing Practice (GMP) facilities and equipment. He most recently assisted Chemeq Ltd to achieve its GMP license as Quality Operations Manager. Mr Walton holds a Bachelor of Science from Curtin University.

DIRECTORS' REPORT

Corporate Structure and Principal Activities

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

Operating and Financial Review

Financial results

CollTech reported a net loss after income tax for the reporting period ended 30 June 2006 of \$2,087,921, up 34.8% on the previous year (2005: \$1,549,125). In addition to the extensive research and development on its OVICOLL[®] ovine collagen products the full year loss included \$688,589 (2005: \$470,382) in commissioning costs and upgrades for the WA-based collagen production facility.

Revenues from ordinary activities were \$171,338 (2005: \$179,925). The majority of the revenue is from interest received. The Company had no sales revenue in FY06 as it had not commenced commercial production or sales of its ovine collagen.

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.

Operational review

It has been a year of progress for CollTech with the completion of process development and commissioning projects to enable commercial production of the Company's OVICOLL[®]|C cosmetic collagen from its WA-based collagen production facility in Collie WA.

During the period CollTech completed the commissioning of its WA-based collagen production facility and continued to commercialise its unique OVICOLL[®] ovine collagen products for cosmetic applications. The Company also conducted additional research and development into future biomedical collagen products for research and medical applications.

Marketing and Sales

CollTech's Australian-produced ovine (sheep) collagen is well placed to exploit the market need for a safe and acceptable collagen alternative. OVICOLL[®] ovine collagen is a disease-free, traceable and market acceptable source of collagen that has several advantages over bovine, marine and porcine collagens including being free of mad cow disease, fully traceable and culturally acceptable by Muslim, Jewish and Hindu populations.

CollTech's Australian-produced ovine (sheep) collagen is well placed to exploit the market need for a safe and acceptable collagen alternative. OVICOLL[®] ovine collagen is a disease-free, traceable and market acceptable source of collagen that has several advantages over bovine, marine and porcine collagens including being free of mad cow disease, fully traceable and culturally acceptable by Muslim, Jewish and Hindu populations.

Marketing initiatives were focused on establishing distribution channels and building sales of OVICOLL[®]|C to Asia. CollTech provided samples of its first cosmetic collagen OVICOLL[®]|C to cosmetic ingredient distributors and manufacturers in May 2006, to enable product evaluation and subsequent negotiation of sales contracts. Customers used OVICOLL[®]|C to test formulate collagen-based skincare products, including moisturisers and eye gels, and were pleased with its moisturising and film-forming properties compared to other collagen sources.

CollTech's strategy is to commercialise its OVICOLL[®] cosmetic collagen products through strategic partnerships with distributors in key cosmetic markets and its OVICOLL[®] biomedical collagen through licensing agreements to pharmaceutical and medical device companies in target medical markets.

DIRECTORS' REPORT (cont'd)

Manufacturing

The Operations team completed the commissioning of the Company's WA-based collagen production facility in May-06 having implemented various equipment modifications, upgrades and process improvements as part of the process development project to reduce fat levels, simplify downstream processing and increase protein purity and concentration of the final product. Subsequently, CollTech announced commercial production of its OVICOLL®|C cosmetic collagen in July 2006.

Research and Development

CollTech's R&D activities throughout the year focused on process developments to enable commercial production of soluble collagen and product development of its OVICOLL® cosmetic collagens including;

- OVICOLL®|C: opalescent cosmetic collagen for skincare and haircare products, and
- OVICOLL®|Clear: clear cosmetic collagen for premium skincare and cosmeceutical products.

Other activities were directed towards development of its higher value biomedical collagens OVICOLL®|R for research purposes and OVICOLL®|M for medical applications.

Intellectual Property

CollTech's core patent family entitled 'Collagen and method for producing same' provides market protection for its novel industrial process for the separation, extraction and purification of collagen from sheep and other animal skins until 2023.

During the year, the Australian and New Zealand patents were granted and CollTech had nine (9) other patent applications in various stages in key jurisdictions including USA, Europe, Japan and China.

Significant Changes in State of Affairs

A strategic review of the Company's operations during the year saw the Company implement a major process development project to commission its collagen production facility, and change direction from the production of high volume, low margin collagen food products to low volume, high margin cosmetic and biomedical products.

The Company successfully raised \$2.2M via a private placement and Share Purchase Plan (SPP) in September 2005 to fund these activities and implemented a recruitment program during the year to strengthen its Board and management, which included the appointments of Mr Stephen Carter as Chairman and Dr Deborah Cooper as CSO, and the promotion of Dr Leearne Hinch to General Manager.

This review and the appointment of key management and operating staff has seen CollTech reposition itself from tracking behind schedule to being 6-months ahead of schedule for its biomedical program.

Other than the matters raised above there were no significant changes in the state of affairs of the Company during the financial year.

Significant Events After Balance Date

In July 2006 the Company announced the granting of its South African patent, commercial production of its OVICOLL®|C cosmetic collagen and the achievement of its first sales of OVICOLL®|C to cosmetic distributors and manufacturers in the growing Asian market. The Company also announced the signing of its first HOA for distribution of its OVICOLL® cosmetics products in China.

DIRECTORS' REPORT (cont'd)

CollTech will continue to strengthen its distribution channels for its OVICOLL® cosmetic collagen products as it enters new markets through partnerships with established cosmetic ingredient distributors and manufacturers.

Additionally, the R&D team, led by Dr Deborah Cooper has made significant progress in the Company's product development program for higher value biomedical collagen having defined and proven reproducibility of the filtration process to enable clear collagen production. The filtration process is a critical step towards commercialisation of the Company's unique biomedical ovine collagen that will be licensed to pharmaceutical companies for the development and manufacture of collagen-based medical products for woundcare, tissue-engineering and cell/drug delivery. CollTech is now moving to install and commission the filtration equipment, with the assistance of collagen-experienced filtration experts, in readiness for launch of its OVICOLL®|Clear premium cosmetic product in Dec-06 and its biomedical collagen products in late 2007.

In September 2006 the Company successfully completed a capital raising of \$1.8 million (net of fees). The capital raising was conducted via a private placement of 18,395,927 ordinary shares at 10 cents per share to institutional and sophisticated investors and a Share Purchase Plan of 1,090,000 ordinary shares at 10 cents per share to current shareholders.

Michael Pixley was appointed a Director of CollTech on 28 September 2006. The Company also announced the appointments of key executives Stewart Walton as Operations Manager and Glen Brune as CFO/Company Secretary to strengthen the operational and financial leadership of the Company as it moves to commercialisation. Several other appointments were made to strengthen the science, sales and manufacturing teams. 1,650,000 options will be granted to three (3) executives exercisable at various times prior to their expiry date. The options have an exercise price of \$0.10 each.

Except for the above developments, no matters or circumstance 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

The outlook for CollTech is positive with commercial production and sales of the Company's first product OVICOLL®|C underway, the biomedical program tracking 6-months ahead of schedule and the planned launch of OVICOLL®|Clear in Dec-06. CollTech's focus will be to build sales revenue from its OVICOLL® cosmetic collagens and to finalise the development and commercialisation of OVICOLL® biomedical collagens.

The Company will continue to establish distribution channels and build sales of OVICOLL®|C to Asia and OVICOLL®|Clear to the high-value cosmetics markets in Japan, USA and Europe. It will also seek opportunities to license its technology and biomedical collagens to manufacturing and pharmaceutical partners for the development of collagen-based end-products using its unique ovine collagen.

CollTech has entered an exciting growth phase and looks forward to keeping shareholders informed on the achievement of its milestones in the future.

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

03 ANNUAL FINANCIAL REPORT

DIRECTORS' REPORT (cont'd)

Environmental Regulation & Performance

On 19 January 2005 CollTech was granted Operating Licence number 7998/1 (Licence) issued by the Western Australian Department of Environment as prescribed under the Environmental Protection Act 1986. The licence relates to the Company's collagen processing plant located on and includes, but is not necessarily limited to, the following operations: collagen extraction and purification; wastewater 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.

Interests in the shares and options of the Company

Shareholdings

Number of Shares hold by Specified Directors and Executives:

	Balance 1 July 2005	Received as Remuneration	Options Exercised	Net Change Other *	Balance 30 June 2006
Specified Directors					
Mr Stephen Carter	-	-	-	75,000	75,000
Dr Anna Kluczevska	132,600	-	-	-	132,600
Dr John Snowden	7,200,000	-	-	-	7,200,000
Mr Michael Blakiston	-	-	-	-	-
	<u>7,332,600</u>	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>7,407,600</u>
Specified Executives					
Mr Michael Pixley	6,600,000	-	-	-	6,600,000
Dr Leearne Hinch	350,000	-	-	632,641	982,641
Dr Deborah Cooper	-	-	-	-	-
Mr Mathew Whyte	75,000	-	-	75,000	-
	<u>7,025,000</u>	<u>-</u>	<u>-</u>	<u>557,641</u>	<u>7,582,641</u>
Total	<u>14,357,600</u>	<u>-</u>	<u>-</u>	<u>632,641</u>	<u>14,990,241</u>

*Since balance date Mr Stephen Carter has acquired a further 156,500 shares on market bringing his shareholding to 231,500 shares at the date of this report. No other movements in directors' interests in the shares and options of CollTech have occurred between balance date and the date of this report.

DIRECTORS' REPORT (cont'd)

Option Holdings

Number of options held by Specified Directors and Executives:

	Balance 1 July 2005	Granted as Remuneration	Options Exercised	Net Change Other *	Balance 30 June 2006	Total Vested 30 June 2006
Specified Directors						
Mr Stephen Carter	-	2,200,000	-	-	2,200,000	2,200,000
Dr Anna Kluczevska	870,000	-	-	-	870,000	870,000
Dr John Snowden	2,900,000	-	-	-	2,900,000	2,900,000
Mr Michael Blakiston	1,500,000	-	-	-	1,500,000	1,500,000
	5,270,000	2,200,000	-	-	7,470,000	7,470,000
Specified Executives						
Mr Michael Pixley	2,900,000	-	-	-	2,900,000	2,900,000
Dr Leeearne Hinch	650,000	650,000	-	-	1,300,000	1,040,000
Dr Deborah Cooper	-	650,000	-	-	650,000	130,000
Mr Mathew Whyte	650,000	-	-	-	650,000	390,000
	4,200,000	1,300,000	-	-	5,500,000	4,460,000
Total	9,470,000	3,500,000	-	-	12,970,000	11,930,000

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

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 \$12,680 (2005: \$13,564).

DIRECTORS' REPORT (cont'd)

Remuneration Report

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

A PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

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, the CEO 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.

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 period ended 30 June 2006 is detailed in Table 1 below.

DIRECTORS' REPORT (cont'd)

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 Group.

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 the commissioning of its collagen extraction facility at Collie WA and process developments to enable commercial production of soluble collagen and product development of its OVICOLL[®] cosmetic collagens. The Remuneration Committee will review and redesign the overall remuneration for its executive team to include performance based incentive schemes such as bonus payments for achievements of certain key performance indicators, commissions based on sales, and where appropriate bonus paid for successful commercialisation of developed IP and Products.

The aggregate of annual payments available for executives across the Group is subject to the approval of the Remuneration Committee. Payments made are delivered as a cash bonus in the following reporting period.

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 22.

03 ANNUAL FINANCIAL REPORT

DIRECTORS' REPORT (cont'd)

B DETAILS OF REMUNERATION (THIS INFORMATION HAS BEEN AUDITED)

Details of the remuneration of each specified director and executive are set out in the following tables.

Table 1: Directors' remuneration:

	Year Ended 30 June	Primary				Equity	Other	Total
		Salary, Fees & Commissions \$	Super-annuation \$	Cash Bonus \$	Non-Cash Benefits \$	Options \$	\$	\$
Specified Directors								
Mr Stephen Carter	2006	29,167	2,625	-	-	78,760	-	110,552
	2005	-	-	-	-	-	-	-
Dr Anna Kluczewska	2006	25,000	2,250	-	-	22,185	-	49,435
	2005	25,000	2,250	-	-	22,185	-	49,435
Dr John Snowden	2006	25,000	2,250	-	-	-	-	27,250
	2005	25,000	2,250	-	-	-	-	27,250
Mr Michael Blakiston	2006	32,500	2,925	-	-	-	-	35,425
	2005	65,000	5,850	-	-	-	-	70,850
Total	2006	111,667	10,050	-	-	100,945	-	222,662
	2005	115,000	10,350	-	-	22,185	-	147,535

DIRECTORS' REPORT (cont'd)

Table 2: Executives' remuneration:

	Year Ended 30 June	Primary				Equity	Other	Total
		Salary, Fees & Commissions	Super -annuation	Cash Bonus	Non-Cash Benefits	Options		
		\$	\$	\$	\$	\$	\$	\$
Specified Executives								
Mr Michael Pixley	2006	80,000	7,200	-	-	-	-	87,200
	2005	80,000	7,200	-	-	-	-	87,200
Dr Learne Hinch	2006	150,000	13,500	-	-	31,330	-	194,830
	2005	88,750	7,988	-	-	1,040	-	97,778
Dr Deborah Cooper	2006	87,500	7,875	-	-	1,170	-	96,545
	2005	-	-	-	-	-	-	-
Mr Mathew Whyte	2006	133,334	13,108	-	9,116	-	-	155,558
	2005	111,500	11,150	-	-	-	-	122,650
Dr David Kennedy	2006	-	-	-	-	-	-	-
	2005	120,664	10,860	-	-	-	-	131,524
Total	2006	450,834	41,683	-	9,116	32,500	-	534,133
	2005	400,914	37,198	-	-	1,040	-	439,152

No proportion of the above directors' and executives' remuneration was related to the performance of the Company. The remuneration committee is currently considering the implementation of a scheme for performance-based remuneration for executives, which incorporates long and short term incentives.

DIRECTORS' REPORT (cont'd)

Table 3: Options granted as part of remuneration for the year ended 30 June 2006:

Terms & Conditions For Each Grant

Specified Directors and Executives	Grant Date	Grant Number	Vested Number during Year ended 30 June 06	Fair value	Exercise Price	Exercised Number	Value	Value at date option lapsed	% of remuneration
				per Option at Grant Date*			per Option at Exercise Date		
Mr Stephen Carter ^(a)	17/05/06	2,200,000	2,200,000	\$0.0358	\$0.10	N/A	N/A	N/A	71%
Dr Leearne Hinch ^(b)	31/03/06	650,000	650,000	\$0.045	\$0.10	N/A	N/A	N/A	15%
Dr Deborah Cooper ^(c)	30/09/05	650,000	130,000	\$0.009	\$0.15	N/A	N/A	N/A	3%

Details of the vesting of these options are as follows:

(a) Options granted to Mr Carter, for no consideration, were fully vested on the date they were granted.

(b) Options granted to Dr Hinch, for no consideration, were fully vested on the date they were granted.

(c) Options granted to Dr Cooper, for no consideration, vest as follows:

(i) 130,000 on date of grant;

(ii) 260,000 upon manufacture of 3 batches of Collagen within specification; and

(iii) 260,000 12 months after (ii) above.

* 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 is provided in a table under note 22.

DIRECTORS' REPORT (cont'd)

C EXECUTIVES' EMPLOYMENT CONTRACT INFORMATION

Details of additional employment contract information for specific executives is provided below.

Details	Mr Michael Pixley	Dr Learne Hinch	Mr Glen Brune	Dr Deborah Cooper
(a) Commencement of contract	13 February, 2004	29 November, 2004	28 August, 2006	4 September, 2005
(b) Termination date of contract	No fixed date.	No fixed date.	No fixed date.	No fixed date.
(c) Period of notice for resignation/termination	3 months	6 months	6 months	6 months
(d) Termination - with cause	The Company may terminate Agreements with the above staff 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 Company may terminate Agreement with the above staff without cause by providing written notice of the abovementioned 'period of notice' or provide payment in lieu of the notice period. On termination the Company will also provide the employee with 4 weeks redundancy for every year employed. On termination on notice by the Company, any options that have vested or will vest during the notice period will be released. Options that have not vested will be forfeited.			

Director's 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		
	Directors' Meetings	Audit	Remuneration
Number of meetings held:	13	3	1
Number of meetings attended:			
Mr Stephen Carter	5	1	-
Dr Anna Kluczevska	13	3	1
Dr John Snowden	13	3	1
Mr Michael Blakiston	8	2	1

For the reporting period, Mr Carter attended all meetings since his appointment to the Board. Likewise, Mr Blakiston attended all meetings during his tenure. The noted absences were for meetings which occurred prior to Mr Carter's appointment or after Mr Blakiston's resignation.

03 ANNUAL FINANCIAL REPORT

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 on page 11 and forms part of this directors' report for the year ended 30 June 2006.

Non-Audit Services

The following non-audit services were provided by our auditors, HLB Mann Judd. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

HLB Mann Judd received or are due to receive the following amounts for the provision of non-audit services:

Assistance with financial reporting disclosures \$5,250

Signed in accordance with a resolution of the directors.



Stephen Carter
Chairman

Perth, Western Australia
September 28, 2006

AUDITORS' INDEPENDENCE DECLARATION

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of CollTech Australia Limited for the year ended 30 June 2006, 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.

A handwritten signature in black ink, appearing to read 'L Di Giallonardo'.

L Di Giallonardo
Partner, HLB Mann Judd

Perth, Western Australia
September 28, 2006

HLB Mann Judd (WA Partnership)
15 Rheola Street West Perth 6005. PO Box 263 West Perth 6872 Western Australia. DX 238 (Perth) Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.
Email: hlb@mjwa.com.au. Website: <http://www.hlb.com.au>
Partners: Ian H Bursden, Terry M Blenkinsop, Litsa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

CORPORATE GOVERNANCE STATEMENT

STATEMENT

Since the introduction of 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 report. 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.

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 sub-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

Principles 2 and 9 Recommendations 2.4 and 9.2: The Board should establish Nomination and Remuneration Committees.

Notification of Departure:

There are no separate Nomination or Remuneration Committees.

Explanation for Departure:

The full Board considers those matters that would usually be the responsibility of a nomination or remuneration committee. Given that the Board comprises only three directors, the Board considers that no efficiencies or other benefits would be gained by establishing separate committees. The Board has adopted a Nomination Committee Charter and Remuneration Committee Charter, which it applies as relevant. While both charters provides for the Board to meet at least annually in their capacity as the relevant committee, in practice the Board discusses nomination and remuneration matters from time to time as required. This results in the Board convening more than once annually, respectively, as the nomination committee and remuneration committee.

Principle 4 Recommendation 4.2: The Board should establish an Audit Committee.
Notification of Departure:

Notification of Departure:

A separate audit committee has not been formed.

Explanation for Departure:

The full Board carries out the role of the audit committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate audit committee. The Board has adopted an Audit Committee Charter, which it applies when convening as the audit committee. The Board convenes as the audit committee separate from regular meetings of the Board. As no directors perform an executive role within the Company, or are involved with the preparation of the Company's accounts, the full Board is considered to be an appropriate mechanism to ensure the integrity of the accounts.

CORPORATE GOVERNANCE STATEMENT (cont'd)

NOMINATION COMMITTEE

The full Board, in its capacity as the Nomination Committee, held two meetings during the reporting period. All members attended the meetings with the exception of Mr Carter who was not appointed to the Board at the time the meetings were held.

REMUNERATION COMMITTEE

Company's Remuneration Policies

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The full Board, in its capacity as the Remuneration Committee, held one meeting during the reporting period. All members attended the meeting with the exception of Mr Carter who was not appointed to the Board at the time the meeting was held.

AUDIT COMMITTEE

The full Board, in its capacity as the Audit Committee, held 3 meetings during the reporting period. The following table shows attendance at those meetings:

Directors	Meetings Attended No.
Mr Stephen Carter	1
Dr Anna Kluczevska	3
Dr John Snowden	3
Mr Michael Blakiston	2

For the reporting period, Mr Blakiston attended all meetings during his tenure. The noted absence was for a meeting which occurred after his resignation. Likewise, Mr Carter has attended all meetings since his appointment to the Board.

All directors are financially literate by virtue of their industry or business experience. While none possess "financial expertise" as recommended by the ASX, members of the executive attend audit committee meetings by invitation and are available to respond to queries arising in relation to the accounts. There are processes in place to enable the Board to have the opportunity to meet separately with the external auditor, without management present, to the extent this is considered necessary.

OTHERS

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.

CORPORATE GOVERNANCE STATEMENT (cont'd)

Identification of Independent Directors

In considering independence of directors, the Board refers to the criteria for independence as recommended by the ASX. 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 Statement of Board and Management Functions, which is disclosed in full on the Company website.

Applying the independence criteria, the Board considers that Mr Stephen Carter and Dr Anna Kluczevska are independent.

In the interests of disclosure, through their respective consultancy companies, Mr Carter and Dr Kluczevska provide expertise and know-how in relation to the Company's business, which services are provided at normal commercial rates. Notwithstanding the relationships between each of Mr Carter and Dr Kluczevska and the Company, the Company considers that in neither case relevant materiality thresholds are exceeded, and neither Mr Carter nor Dr Kluczevska are impeded from exercising independent judgment in their roles as directors.

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 Chairman, 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 a formal evaluation of the Board was commenced but not completed. Board members were required to complete a questionnaire regarding the chairman's role, the role of the Board as a whole and the Board's performance on a range of topics and procedures. Directors were also required to consider their individual responsibilities. The role of chief executive officer as well as the relationship the chief executive officer has with the Board is also included in the questionnaire. Due to availability of all members of the Board, the follow up discussion of the questionnaire did not take place until August 8, 2006.

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 2006

	Note	2006 \$	2005 \$
Revenues	2	171,338	179,925
Depreciation expense	3	260,283	87,533
Borrowing costs expense	3	70,278	57,413
Share based payments	3	134,225	23,225
Other expenses	3	2,091,546	1,668,149
Loss before income tax benefit		2,384,994	1,656,395
Income tax benefit	4	297,073	107,270
Net loss attributable to members	17	2,087,921	1,549,125
Basic loss per share (cents per share)	7	1.77 cents	1.60 cents
Diluted loss per share (cents per share)	7	1.77 cents	1.60 cents

The accompanying notes form part of these financial statements.

03 ANNUAL FINANCIAL REPORT

BALANCE SHEET AS AT 30 JUNE 2006

	Note	2006 \$	2005 \$
CURRENT ASSETS			
Cash	8	1,453,915	1,120,624
Receivables	9	23,864	-
Inventories	10	15,981	-
Other	11	26,287	36,928
TOTAL CURRENT ASSETS		1,520,047	1,157,552
NON-CURRENT ASSETS			
Cash	8	274,814	488,587
Property, plant and equipment	12	2,577,574	2,681,089
TOTAL NON-CURRENT ASSETS		2,852,388	3,169,676
TOTAL ASSETS		4,372,435	4,327,228
CURRENT LIABILITIES			
Payables	13	279,760	380,426
Interest-bearing liabilities	14	153,110	184,415
Provisions	15	31,770	17,065
TOTAL CURRENT LIABILITIES		464,640	581,906
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	14	618,978	772,088
TOTAL NON-CURRENT LIABILITIES		618,978	772,088
TOTAL LIABILITIES		1,083,618	1,353,994
NET ASSETS		3,288,817	2,973,234
EQUITY			
Contributed equity	16	7,857,052	5,587,773
Accumulated losses	17	5,218,933	3,131,012
Reserves	18	650,698	516,473
TOTAL EQUITY		3,288,817	2,973,234

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		44,987	23,514
Payments to suppliers and employees		2,236,699	1,228,324
Interest received		126,351	152,411
Borrowing costs		70,278	55,238
Income tax received		297,073	107,270
Net cash used in operating activities	21	1,838,566	1,000,367
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		156,768	1,675,747
Net cash used in investing activities		156,768	1,675,747
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		2,435,754	-
Costs of share issue		166,475	-
Repayment of borrowings		154,427	90,877
Net cash provided by financing activities		2,114,852	90,877
Net increase in cash held		119,518	2,766,991
Cash at the beginning of the financial year		1,609,211	4,376,202
Cash at the end of the financial year	8	1,728,729	1,609,211

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Note	Ordinary Shares	Accumulated Losses	Employee Equity Benefits Reserve	Total
		\$	\$	\$	\$
EQUITY					
Balance as at 1 July 2004		5,587,773	1,581,887	493,248	4,499,134
Net loss attributable to members	17	-	\$1,549,125	-	1,549,125
Employee options issued during the year	18	-	-	23,225	23,225
Balance as at 30 June 2005		5,587,773	3,131,012	516,473	2,973,234
Shares issued during the year	16	2,435,754	-	-	2,435,754
Share issue costs	16	166,475	-	-	166,475
Net loss attributable to members	17	-	2,087,921	-	2,087,921
Employee options issued during the year	18	-	-	134,225	134,225
Balance as at 30 June 2006		7,857,052	5,218,933	650,698	3,288,817

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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 and Australian Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

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.

Statement of Compliance

The financial report was authorised for issue on 28 September, 2006.

The financial report complies with Australian Accounting Standards, which include 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).

This is the first annual financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit/loss for the year ended 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 26.

Critical Accounting Estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are:

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 22.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Material Accounting Policies

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) 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 and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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.

(b) Property, Plant and Equipment

Each class of property, plant and equipment are carried at cost or fair value less, where applicable, any accumulated depreciation.

Property

Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. It is the policy of the Company to have an independent valuation every three years, with annual appraisals being made by the directors.

Plant and equipment

Plant and equipment are measured on the cost basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows are discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overhead costs.

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%.

(c) Borrowing Costs

Borrowing costs are recognised as an expense when incurred. Borrowing costs directly attributable to buildings under construction are capitalised as part of the cost of those assets.

(d) 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(c).

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.

(e) 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 Group will not be able to collect the debts. Bad debts are written off when identified.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Trade and other payables

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

(g) 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:

- Raw materials - purchase cost on a first-in, first-out basis; and
- 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.

(h) 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.

(i) Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that 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.

The assets and liabilities of the overseas controlled entities, which are self-sustaining, are translated at year-end rates and operating results are translated at the rates ruling at the end of each month. Gains and losses arising on translation are taken directly to the foreign currency translation reserve.

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 2006 (cont'd)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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

(k) 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 binomial model, further details of which are given in Note 22.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of CollTech Australia Limited (market conditions) 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.

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 7.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Cash

For the purpose of the cash flow statement, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

(m) Contributed Equity

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.

(n) Earnings Per Share

Basic earnings per share is calculated as net profit/loss attributable to members of the parent, 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 parent, 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.

(o) Revenue

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 of the goods to the customer.

ii) *Rendering of services*

Revenue from the rendering of services is recognised by reference to the stage of completion of the contract.

iii) *Interest income*

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

iv) *Dividends*

Revenue is recognised when the Company's right to receive the payment is established.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

(p) 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.

(q) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 2: REVENUE

	2006 \$	2005 \$
Operating activities		
Interest received on deposits	126,351	158,811
Grant - Export Market Development	43,987	21,114
Other	1,000	-
Total revenue	171,338	179,925

NOTE 3: EXPENSES

Loss before income tax benefit tax has been determined after charging as expenses:		
a) Depreciation		
Property, plant and equipment	260,283	87,533
Total depreciation	260,283	87,533
b) Borrowing costs:		
Other persons	-	9,201
Interest expense	70,278	48,212
Total borrowing costs	70,278	57,413
c) Share based payments		
Issue of options for services provided (Note 22)	134,225	23,225
d) Other expenses:		
Operating expenses - Collie extraction facility	688,589	470,382
Auditors' remuneration (Note 6)	22,800	27,400
Rent & office leasehold improvements	51,096	61,865
Public company administration	230,274	188,597
Travel and accommodation	81,229	30,126
Executive payroll	596,389	490,762
Consultancy and professional services	316,691	256,165
Other expenses	104,478	142,852
Total other expenses	2,091,546	1,668,149

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 4: INCOME TAX

	2006 \$	2005 \$
Income tax recognised in profit or loss		
The major component of tax benefit is:		
Adjustment recognised in the current year in relation	297,073	107,270
The prima facie income tax benefit on pre-tax accounting loss from		
Accounting loss before income tax	2,384,994	1,656,395
Income tax benefit calculated at 30%	715,498	496,919
Non-deductible expenses	40,795	9,100
R & D tax offset refunded in current year	297,073	107,270
Unrecognised tax losses	698,185	470,870
Unrecognised deferred tax asset/(liability)	23,482	16,949
Income tax benefit reported in the income statement	297,073	107,270

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 5: KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

The following persons were directors of CollTech Australia Limited during the financial year:

(i) *Chairman - non-executive*

Mr Stephen Carter

Mr Michael Blakiston (former chairman - resigned 31 December 2005)

(ii) *Non-executive directors*

Dr Anna Kluczevska

Dr John Snowden

Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year:

Name	Position
Mr Michael Pixley	Chief Executive Officer
Dr Leeearne Hinch	General Manager
Dr Deborah Cooper	Chief Scientific Officer
Mr Mathew Whyte (resigned 31 August 2006)	Chief Financial Officer

All of the above persons were also key management persons during the year ended 30 June 2005, with the exception of Dr Cooper.

Key management personnel compensation

	2006 \$	2005 \$
Short-term employee benefits	571,617	515,914
Post employment benefits	51,733	47,548
Share-based payments	133,445	23,225
	<u>756,795</u>	<u>586,687</u>

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections B-C of the Remuneration Report on pages 7 to 9.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 5: KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

Equity instrument disclosures relating to key management personnel

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

	Terms & Conditions for Each Grant								
	Grant Date	Grant Number	Vested Number during Year ended 30 June 06	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 Leearne Hinch (a)	31/03/2006	650,000	650,000	\$0.045	\$0.10	N/A	N/A	N/A	15%
Dr Deborah Cooper (b)	30/09/2005	650,000	130,000	\$0.009	\$0.15	N/A	N/A	N/A	3%
Mr Stephen Carter (c)	17/05/2006	2,200,000	2,200,000	\$0.0358	\$0.10	N/A	N/A	N/A	71%

Details of the vesting of these options are as follows:

* 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 is provided in a table under note 22.

(a) Options granted to Dr Hinch, for no consideration, were fully vested on the date they were granted.

(b) Options granted to Dr Cooper, for no consideration, vest as follows:

- (i) 130,000 on date of grant;
- (ii) 260,000 upon manufacture of 3 batches of Collagen within specification; and
- (iii) 260,000 12 months after (ii) above.

(c) Options granted to Mr Carter, for no consideration, were fully vested on the date they were granted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 5: KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

2: Option holdings:

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

2006	Balance July 2005	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2006	Total Vested 30 June 2006	Total Exercise-able	Total Unexerciseable
<i>Specified Directors</i>								
Mr Stephen Carter	-	2,200,000	-	-	2,200,000	2,200,000	2,200,000	-
Dr Anna Kluczevska	870,000	-	-	-	870,000	870,000	-	870,000
Dr John Snowden	2,900,000	-	-	-	2,900,000	2,900,000	-	2,900,000
Mr Michael Blakiston	1,500,000	-	-	-	1,500,000	1,500,000	-	1,500,000
	5,270,000	2,200,000	-	-	7,470,000	7,470,000	2,200,000	5,270,000
<i>Specified Executives</i>								
Mr Michael Pixley	2,900,000	-	-	-	2,900,000	2,900,000	-	2,900,000
Dr Leeearne Hinch	650,000	650,000	-	-	1,300,000	1,040,000	1,040,000	260,000
Dr Deborah Cooper	-	650,000	-	-	650,000	130,000	130,000	520,000
Mr Mathew Whyte	650,000	-	-	-	650,000	390,000	390,000	260,000
	4,200,000	1,300,000	-	-	5,500,000	4,460,000	1,560,000	3,940,000
Total	9,470,000	3,500,000	-	-	12,970,000	11,930,000	3,760,000	9,210,000

2005	Balance 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2005	Total Vested 30 June 2005	Total Exercise-able	Total Unexerciseable
<i>Specified Directors</i>								
Dr Anna Kluczevska	870,000	-	-	-	870,000	625,000	-	870,000
Dr John Snowden	2,900,000	-	-	-	2,900,000	2,900,000	-	2,900,000
Mr Michael Blakiston	1,500,000	-	-	-	1,500,000	1,500,000	-	1,500,000
	5,270,000	-	-	-	5,270,000	5,052,500	-	5,270,000
<i>Specified Executives</i>								
Mr Michael Pixley	2,900,000	-	-	-	2,900,000	2,900,000	-	2,900,000
Dr Leeearne Hinch	-	650,000	-	-	650,000	130,000	130,000	520,000
Mr Mathew Whyte	650,000	-	-	-	650,000	130,000	130,000	520,000
	3,550,000	650,000	-	-	4,200,000	3,160,000	260,000	3,940,000
Total	8,820,000	650,000	-	-	9,470,000	8,212,500	260,000	9,210,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 5: KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

3: Shares Issued on Exercise of Remuneration Options

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

4: Share holdings:

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

2006	Balance 1 July 2005	Received during the year on the exercise of options	Other changes during the year	Balance 30 June 2006
<i>Specified Directors</i>				
Mr Stephen Carter	-	-	75,000	75,000
Dr Anna Kluczevska	132,600	-	-	132,600
Dr John Snowden	7,200,000	-	-	7,200,000
Mr Michael Blakiston	-	-	-	-
	7,332,600	-	75,000	7,407,600
<i>Specified Executives</i>				
Mr Michael Pixley	6,600,000	-	-	6,600,000
Dr Leeearne Hinch	350,000	-	632,641	982,641
Dr Deborah Cooper	-	-	-	-
Mr Mathew Whyte	75,000	-	75,000	-
	7,025,000	-	557,641	5,500,000
Total	14,357,600	-	632,641	14,990,241

2005	Balance 1 July 2005	Received during the year on the exercise of options	Other changes during the year	Balance 30 June 2006
<i>Specified Directors</i>				
Dr Anna Kluczevska	132,600	-	-	132,600
Dr John Snowden	7,200,000	-	-	7,200,000
Mr Michael Blakiston	-	-	-	-
	5,270,000	-	-	7,332,600
<i>Specified Executives</i>				
Mr Michael Pixley	6,600,000	-	-	6,600,000
Dr Leeearne Hinch	-	-	350,000	350,000
Mr Mathew Whyte	75,000	-	-	75,000
	6,675,000	-	350,000	7,025,000

03 ANNUAL FINANCIAL REPORT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

2005	Balance 1 July 2005	Received during the year on the exercise of options	Other changes during the year	Balance 30 June 2006
Total	14,007,600	-	350,000	14,357,600

Loans to key management personnel

There are no loans to key management personnel.

NOTE 6: AUDITORS' REMUNERATION

	2006 \$	2005 \$
Remuneration of the auditor of the company for:		
Auditing or reviewing the financial reports	17,550	25,825
Other services - assisting with financial reporting disclosures	5,250	1,575
	<u>22,800</u>	<u>27,400</u>

NOTE 7: EARNINGS PER SHARE

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

Net loss	2,087,921	1,549,125
Adjustments:		
Net loss attributable to outside equity interest	-	-
Losses used in calculating basic and diluted earnings per share	<u>2,087,921</u>	<u>1,549,125</u>

Weighted average number of ordinary shares used in calculating basic earnings per share:

	No.	No.
Effect of dilutive securities		
Share options - It is not considered that the 16,510,000 (2005: 13,010,000) unlisted options on issue as disclosed in Note 16 (c) 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	<u>118,249,614</u>	<u>97,000,000</u>

Since the end of the financial year the Company has issued 18,395,928 ordinary shares and 350,000 unlisted options, refer Note 23.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 8: CASH ASSETS

	2006	2005
	\$	\$
CURRENT		
Cash at bank	1,250,945	917,654
Security Deposits*	202,970	202,970
	<u>1,453,915</u>	<u>1,120,624</u>
NON-CURRENT		
Security Deposits*	274,814	488,587
	<u>1,728,729</u>	<u>1,609,211</u>
<p>Represents the balance of term deposits held as security in relation to hire purchase liabilities entered into during the year with National Australia Bank.</p>		

NOTE 9: RECEIVABLES

CURRENT		
GST receivable	23,864	-

NOTE 10: INVENTORIES

Raw materials - at cost	15,981	-
-------------------------	--------	---

NOTE 11: OTHER ASSETS

CURRENT		
Prepayments	26,287	36,928

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment		
At cost	2,934,971	2,778,203
Accumulated depreciation	357,397	97,114
	<u>2,577,574</u>	<u>2,681,089</u>

03 ANNUAL FINANCIAL REPORT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (cont'd)

	2006 \$	2005 \$
Movements in carrying amounts:		
Balance at the beginning of the year	2,681,089	288,531
Additions	156,768	2,480,091
Disposals	-	-
Depreciation expense	260,283	87,533
Carrying amount at the end of the year	<u>2,577,574</u>	<u>2,681,089</u>

NOTE 13: PAYABLES

CURRENT

Trade creditors and accruals	<u>279,760</u>	<u>380,426</u>
------------------------------	----------------	----------------

NOTE 14: INTEREST BEARING LIABILITIES

CURRENT

Insurance premium funding	-	29,988
Hire purchase liability - Note 19(a)	153,110	154,427
	<u>153,110</u>	<u>184,415</u>

NON-CURRENT

Hire purchase liability - Note 19(a)	<u>618,978</u>	<u>772,088</u>
--------------------------------------	----------------	----------------

NOTE 15: PROVISIONS

CURRENT

Employee entitlements	<u>31,770</u>	<u>17,065</u>
-----------------------	---------------	---------------

	No.	No.
Number of employees at balance date	<u>9</u>	<u>10</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 16: CONTRIBUTED EQUITY

			2006 \$	2005 \$
a) Issued capital				
b) Ordinary shares, fully paid			7,857,052	5,587,773
	2006 No.	2005 No.		
Movements in shares on issue:				
Balance at the beginning of the financial year	97,000,000	97,000,000	5,587,773	5,587,773
Shares issued during year:				
Private placement (September 2005)	13,157,898	-	1,250,000	-
Share purchase plan (September, 2005)	12,481,616	-	1,185,754	-
Share issue costs			166,475	-
Balance at the end of the financial year	122,639,514	97,000,000	7,857,052	5,587,773

c) Share Options

Share options	Exercise price	Expiry date	Balance at beginning of year No.	Issued during the year No.	Balance at end of year No.
Unlisted options	\$0.20	28 Nov 2006	5,800,000	-	5,800,000
Unlisted options	\$0.20	1 Dec 2006	5,270,000	-	5,270,000
Unlisted options	\$0.25	24 Feb 2008	650,000	-	650,000
Unlisted options	\$0.25	25 Feb 2008	640,000	-	640,000
Unlisted options	\$0.25	27 May 2009	650,000	-	650,000
Unlisted options	\$0.15	30 Sept 2008	-	650,000	650,000
Unlisted options	\$0.10	31 Mar 2009	-	650,000	650,000
Unlisted options	\$0.10	17 May 2009	-	2,200,000	2,200,000
			13,010,000	3,500,000	16,510,000

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.

03 ANNUAL FINANCIAL REPORT

NOTE 17: ACCUMULATED LOSSES

	2006 \$	2005 \$
Accumulated losses at the beginning of the financial year	3,131,012	1,581,887
Net loss attributed to members	2,087,921	1,549,125
Accumulated losses at the end of the financial year	5,218,933	3,131,012

NOTE 18: RESERVES

Employee equity benefits reserve	650,698	516,473
Movements in reserves:		
	516,473	493,248
	134,225	23,225
	650,698	516,473

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 22 for further details of these plans.

NOTE 19: COMMITMENTS

(a) Hire purchase commitments, payable		
– within the period of 12 months	209,856	223,499
– within the period of 12 months to 5 years	701,709	911,564
Minimum hire purchase payments	911,565	1,135,063
Less future finance charges	139,477	208,548
Total hire purchase liability	772,088	926,515
Included in the financial statements as follows:		
Current liability (Note 14)	153,110	154,427
Non-current liability (Note 14)	618,978	772,088
	772,088	926,515
(b) 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	65,409	58,374
– within the period of 12 months to 5 years	83,983	128,546
– later than 5 years	111,764	114,971
	261,156	301,891

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 19: COMMITMENTS

	2006 \$	2005 \$
(c) 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	185,300	87,200

NOTE 20: SEGMENT REPORTING

Business and Geographical Segments

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 21: CASH FLOW INFORMATION

(a) Reconciliation of loss for the year to net cash used in operating activities:		
Net loss	2,087,921	1,549,125
Adjustments for non-cash items		
Depreciation	260,283	87,533
Issue of options for services provided	134,225	23,225
Change in net assets and liabilities:		
(Increase)/decrease in receivables	26,287	24,876
(Increase)/decrease in inventories	15,981	-
(Increase)/decrease in other assets	36,928	-
Increase/(decrease) in trade creditors	171,652	444,456
Increase/(decrease) in GST payable	17,134	6,529
Increase/(decrease) in provisions	14,705	11,891
Net cash used in operating activities	1,838,566	1,000,367

(b) Non-cash Financing and Investing Activities

During the year the Company acquired plant and equipment by means of hire purchase amounting to \$nil (2005: \$988,236). These acquisitions are not reflected in the Cash Flow Statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 22: EMPLOYEE BENEFITS

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.

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

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

	2006 No.	2006 Weighted average exercise price	2005 No.	2005 Weighted average exercise price
Outstanding at the beginning of the year	7,210,000	\$0.21	5,920,000	\$0.21
Granted during the year	3,500,000	\$0.11	1,290,000	\$0.25
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	10,710,000	\$0.18	7,210,000	\$0.21
Exercisable at the end of the year	3,838,000		260,000	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 22: EMPLOYEE BENEFITS (cont'd)

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

Grant Date	Expiry Date	Exercise Price	2006 No.	2005 No.
01 Dec 03	01 Dec 06	\$0.20	5,270,000	5,270,000
28 May 04	28 May 09	\$0.25	650,000	650,000
24 Feb 05	24 Feb 08	\$0.25	650,000	650,000
25 Feb 05	25 Feb 08	\$0.25	640,000	640,000
30 Sep 05	30 Sep 08	\$0.15	650,000	-
31 Mar 06	31 Mar 09	\$0.10	650,000	-
17 May 06	17 May 09	\$0.10	2,200,000	-
			10,710,000	7,210,000
			3.25 cents	0.80 cents

Weighted average fair value of options

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 are 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.

The following table lists the inputs to the model used:

	2006	2005
Volatility (%)	75	15
Risk-free interest rate (%)	5.3	6.0
Expected life of option (years)	3	3
Exercise price (cents)	10.9	25.0
Weighted average share price at grant date (cents)	9.7	19.0

The carrying amount of the reserve relating to the cash-settled share-based payment at 30 June 2006 is \$650,698 (2005: \$516,473).

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

In July 2006 the Company announced the granting of its South African patent, commercial production of its OVICOLL®|C cosmetic collagen and the achievement of its first sales of OVICOLL®|C to cosmetic distributors and manufacturers in the growing Asian market. The Company also announced the signing of its first HOA for distribution of its OVICOLL® cosmetics products in China. CollTech will continue to strengthen its distribution channels for its OVICOLL® cosmetic collagen products as it enters new markets through partnerships with established cosmetic ingredient distributors and manufacturers.

Additionally, the R&D team, led by Dr Deborah Cooper has made significant progress in the Company's product development program for higher value biomedical collagen having defined and proven reproducibility of the filtration process to enable clear collagen production. The filtration process is a critical step towards commercialisation of the Company's unique biomedical ovine collagen that will be licensed to pharmaceutical companies for the development and manufacture of collagen-based medical products for woundcare, tissue-engineering and cell/drug delivery. CollTech is now moving to install and commission the filtration equipment, with the assistance of collagen-experienced filtration experts, in readiness for launch of its OVICOLL®|Clear premium cosmetic product in Dec-06 and its biomedical collagen products in late 2007.

In September 2006 the Company successfully completed a capital raising of \$1.8 million (net of fees). The capital raising was conducted via a private placement of 18,395,928 ordinary shares at 10 cents per share to institutional and sophisticated investors and a Share Purchase Plan of 1,090,000 ordinary shares at 10 cents per share to current shareholders.

Michael Pixley was appointed a Director of CollTech on 28 September 2006. The Company also announced the appointments of key executives Stewart Walton as Operations Manager and Glen Brune as CFO/Company Secretary to strengthen the operational and financial leadership of the Company as it moves to commercialisation. Several other appointments were made to strengthen the science, sales and manufacturing teams. 1,650,000 options will be granted to three (3) executives exercisable at various times prior to their expiry date being 3 years from the date of grant. The options will have an exercise price of \$0.10 each.

Except for the above developments, no matters or circumstance 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 24: 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.

Transactions with related parties:

Specified Directors' and Specified Executives' Remuneration

Details of specified directors' and specified executives' remuneration are disclosed in Note 5 to the financial statements.

Transactions with Specified Directors and Specified Executives

- (a) 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 \$5,625 (2005: Nil).
- (b) The Company has a Consultancy Agreement with Dr John Snowden. 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 Dr Snowden of \$21,300 (2005: \$50,270).
- (c) Mr Blakiston is a principal of the firm Blakiston & Crabb. Blakiston & Crabb has been a provider of legal services to the Company in respect of matters concerning Australian law. During the financial year the Company paid legal fees on a normal commercial basis to Blakiston & Crabb of \$9,945 (2005: \$16,252).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 25: FINANCIAL INSTRUMENTS

(a) 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 on classes of financial assets and financial liabilities, is as follows:

	Interest Rate		Floating Interest Rate		Within Year		1 to 5 years		Non-interest Bearing		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets:												
Cash	5.1	5.2	1,728,729	1,609,211	-	-	-	-	-	-	1,728,729	1,609,211
Receivables	-	-	-	-	-	-	-	-	23,864	-	23,864	-
Total financial assets			1,728,729	1,609,211	-	-	-	-	23,864	-	1,752,593	1,609,211
Financial liabilities:												
Payables	-	-	-	-	-	-	-	-	279,760	380,426	279,760	380,426
Interest bearing liabilities	9.75	9.75	-	-	153,110	184,415	618,978	772,088	-	-	772,088	956,503
Total financial liabilities			-	-	153,110	184,415	618,978	772,088	279,760	380,426	1,051,848	1,336,929

(b) 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.

(c) Net Fair Value

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 2006 (cont'd)

NOTE 26: TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Company prepared its financial statements in accordance with Australian generally accepted accounting practice ('AGAAP'). These financial statements for the year ended 30 June 2006 are the first the Company is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards ('AIFRS').

Accordingly, the Company has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Company has started from an opening balance sheet as at 1 July 2004, the Company's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

Company has taken the following exemption allowed under AASB1:

AASB 2 Share-based Payment has not been applied to any equity instruments that were granted after 7 November 2002 that vested before 1 January 2005.

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

	Notes	30 June 2005	1 July 2004 (date of transition)
Total equity under AGAAP		2,973,234	4,499,134
Adjustment to retained earnings (net of Tax)			
Recognition of equity-based compensation expense			
- Effect on accumulated losses	17	23,225	493,248
- Effect on reserves	18	23,225	493,248
Total equity under AIFRS		2,973,234	4,499,134

(b) Reconciliation of net profit/loss under AGAAP to that under AIFRS

Net profit/(loss) as reported under AGAAP		1,525,900	
Recognition of equity-based compensation expense	3	23,225	
Net profit/(loss) under AIFRS		1,549,125	
These adjustments had no material tax or deferred tax consequences			

(c) Cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

NOTE 27: CHANGES IN ACCOUNTING POLICIES

The following amendments to Australian Accounting Standards that have recently been issued or amended are not applicable to the Company and therefore have no impact.

Amendment / New Standard	Affected Standards
2005-2	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation, AASB 1: First-time adoption of AIFRS, AASB 1023: General Insurance Contracts and AASB 1028: Life Insurance Contracts
2005-4	AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts, AASB 139: Financial Instruments: Recognition and Measurement and AASB 132: Financial Instruments: Disclosure and Presentation
2005-9	AASB 1038: Life Insurance Contracts and AASB 1023: General Insurance Contracts
2005-12	AASB 1038: Life Insurance Contracts and AASB 1023: General Insurance Contracts
UIG 6	UIG 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
UIG 7	UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies

Australian Accounting Standards and Urgent Issues Group Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006. In each instance no change to accounting policy will be required, hence no impact is expected:

Amendment / New Standard	Affected Standards	Application Date of Standard*	Application Date for Company
2004-3	AASB 1 First time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 124 Related Party Disclosures	1 January 2006	1 July 2006
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	1 January 2006	1 July 2006
2005-5	AASB 1: First time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	1 January 2006	1 July 2006
	AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings per Share, AASB 139: Financial Instruments: Recognition and Measurement, AASB 1: First time adoption AIFRS, AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts and AASB 1038: Life Insurance Contracts	1 January 2007	1 July 2007
2005-10	AASB 121 The Effects of Change in Foreign Currency Rates	1 January 2006	1 July 2006
2006-1	AASB 7 Financial Instruments: Disclosures	1 January 2007	1 July 2007
AASB 7	AASB 119 Employee Benefits	1 January 2006	1 July 2006
AASB 119	UIG 4 Determining whether an Arrangement contains a Lease	1 January 2006	1 July 2006
UIG 4	UIG 5 Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006	1 July 2006
UIG 5	UIG 8 Scope of AASB 2	1 May 2006	1 July 2006
UIG 8	UIG 9 Reassessment of Embedded Derivatives	1 June 2006	1 July 2006
UIG 9			

*Application date is for the annual reporting periods beginning on or after the date shown in the above table.

03 ANNUAL FINANCIAL REPORT

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 2006 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 ending 30 June 2006.

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



Mr Stephen Carter

Chairman

September 28, 2006

INDEPENDENT AUDIT REPORT



Chartered Accountants

INDEPENDENT AUDIT REPORT

To the members of

COLLTECH AUSTRALIA LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet as at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and the directors' declaration for the year then ended for CollTech Australia Limited ('the company').

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. The Directors' Report attached to the financial statements includes a copy of the Independence Declaration given to the Directors by the lead auditor for the audit. That Declaration would be on the same terms if it had been given to the Directors at the time this audit report was made.

Audit opinion

In our opinion, the financial report of CollTech Australia Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position at 30 June 2006 and of their performance for the year then ended; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

HLB Mann Judd
HLB MANN JUDD
 Chartered Accountants

L Di Giallonardo
L DI GIALLONARDO
 Partner

Perth, Western Australia
 September 28, 2006

HLB Mann Judd (WA Partnership)
 15 Rheola Street West Perth 6005. PO Box 263 West Perth 6872 Western Australia. DX 238 (Perth) Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.
 Email: hlb@mjwa.com.au. Website: <http://www.hlb.com.au>
 Partners: Ian H Bardsley, Terry M Blenkinsop, Lisa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of international and the HLB Mann Judd National Association of independent accounting firms

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 September 21, 2006.

1. Substantial shareholders

The names of substantial shareholders who had notified the Company in accordance with section 671B of the Corporations Act are:

	Shares held
Challenger Financial Services Group Limited	12,024,947
Mere View Investments Ltd	7,416,691
Dr John Snowden & Mrs Pauline Snowden	7,200,000

2. Statement of issued capital

(a) Distribution of fully paid ordinary shareholders

Size of holding	Number of Holders	Shares held	% of Issued Capital
1 - 1,000	109	31,347	0.02
1,001 - 5,000	73	250,089	0.18
5,001 - 10,000	115	1,009,048	0.71
10,001 - 100,000	554	25,102,181	17.80
100,001 - and over	202	114,642,777	81.29
Total	1,053	141,035,442	100.00

(b) Each Ordinary Share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

(c) At the date of this report there were 160 shareholders who held less than a marketable parcel of shares.

3. Options

	Exercise price	Expiry date	Number of options	Number of holders
Unlisted options	\$0.20	28 Nov 2006	5,800,000	2
Unlisted options	\$0.20	1 Dec 2006	5,270,000	3
Unlisted options	\$0.25	24 Feb 2006	650,000	1
Unlisted options	\$0.25	25 Feb 2008	640,000	5
Unlisted options	\$0.25	27 May 2009	650,000	1
Unlisted options	\$0.15	30 Sept 2008	650,000	1
Unlisted options	\$0.10	31 Mar 2009	650,000	1
Unlisted options	\$0.10	17 May 2009	2,200,000	1
Unlisted options	\$0.10	4 Aug 2009	350,000	1
			16,860,000	

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (cont'd)

4. Quotation

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

5. Twenty largest shareholders

Rank	Name	Units	% of Issued Capital
1	Challenger Financial Services Group Limited	12,024,947	8.53
2	Mere View Investments Ltd	7,416,691	5.26
3	Dr John Snowden and Mrs Pauline Snowden	7,200,000	5.11
4	IRSS Nominees (21) Limited	6,600,000	4.68
5	Lifescience Investment Group Inc	6,600,000	4.68
6	Gwynvill Trading Pty Limited	2,786,841	1.98
7	Aymon Pacific Pty Ltd <Jerezos Discretionary a/c>	2,749,000	1.95
8	Energy Ventures Ltd	2,318,283	1.64
9	Fairview Holdings Pty Ltd	1,920,000	1.36
10	Aspenley Pty Ltd	1,650,000	1.17
11	Oaktone Nominees Pty Ltd	1,650,000	1.17
12	Bror Joel Runo Nessen	1,500,000	1.06
13	Mrs Katrina Lee Burton	1,486,841	1.05
14	Mr Nigel John Remfrey	1,482,801	1.05
15	AJ & MI Hinch Nominees Pty Ltd <The Hinch Super Fund a/c>	1,400,000	0.99
16	Mr Gavan John Kohen	1,210,000	0.86
17	UBS Wealth Management Australia Nominees Pty Ltd	1,210,000	0.86
18	Miss Leeearne Maree Hinch	1,150,000	0.82
19	Mr Kenneth John Kohen & Mrs Anne Marie Kohen <Super Fund>	1,146,924	0.81
20	Fairview Holdings Pty Ltd	1,080,000	0.77
		64,582,328	45.80

6. Annual General Meeting

The Annual General Meeting of CollTech will be held at the Celtic Club Inc, 48 Ord Street, West Perth, Western Australia on 29 November 2006 at 12 noon WST.

company overview

CollTech Australia Limited (ASX: CAU) is an Australian listed bio-industrial company specialising in the development and commercialisation of ovine collagen and collagen-based healthcare products. The company is committed to establishing its biomaterials division as a leading global supplier of high quality collagen and to building strategic alliances to develop and commercialise collagen-based cosmetic and medical products that advance healthcare. CollTech's Australian-produced OVICOLL[®] ovine collagen is a safe and culturally acceptable collagen source that is fully traceable and unaffected by the issue of Mad Cow Disease. The company currently markets OVICOLL[®]|C and OVICOLL[®]|Clear for cosmetic applications and has several products in the pipeline for medical applications.

colltech australia ltd

ACN 094 515 992

contact details

P (+618) 9426 3900
F (+618) 9426 3909
E investors@colltech.com.au
W www.colltech.com.au

postal address

PO Box 1264
West Perth WA 6872 Australia

physical address

G/ 76 Kings Park Rd
West Perth WA 6005 Australia