



21 November 2014

**Collagen Solutions Plc
(the "Company" or the "Group")**

**Proposed Acquisition of NZ based providers of medical grade collagen by way of reverse takeover
Placing of £6 million
Readmission of the Enlarged Group to AIM
Notice of General Meeting**

Collagen Solutions plc (AIM: COS), the developer and manufacturer of medical grade collagen components for use in regenerative medicine, medical devices and *in-vitro* diagnostics, announces that a circular, comprising an Admission Document and including a notice of General Meeting, has today been posted to shareholders.

The circular outlines details on:

- The proposed Acquisition of New Zealand based Southern Lights Ventures 2002 Limited (trading as Southern Lights Biomaterials) for a total maximum consideration of NZ\$12m (c. £6m) in cash and shares
 - *a logical strategic extension and complementary acquisition that provides additional security of supply of high grade collagen*
- Conditional Placing to raise £6m at 7p, representing c. 50.13% of the Enlarged Issued Share Capital at Admission
 - *Directors are subscribing for a total of 9,285,714 Placing Shares*
- Appointment of Geoffrey Bennett, co-founder of Southern Lights, as Chief Business Officer
- Notice of General Meeting to be held at 3 Robroyston Oval, Nova Technology Park, Glasgow G33 1AP on 9am on 9 December 2014.

Defined terms in this announcement have the same meaning as those in the Admission Document. The Admission Document is available on the Company's website: www.collagensolutions.co.uk

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Introduction

The Company is pleased to announce it has agreed terms in respect of the acquisition of Southern Lights Biomaterials (“Southern Lights”) and a Placing to raise £6 million, before expenses, by the issue of 85,714,286 new Ordinary Shares at 7p per share. The Acquisition, if completed, is of sufficient size to constitute a reverse takeover under the AIM Rules and is therefore subject to the approval of Shareholders at the General Meeting and the publication of an admission document.

A General Meeting of the Company has been convened for 9am on 9 December 2014 to be held at the offices of Collagen Solutions plc, 3 Robroyston Oval, Nova Technology Park, Glasgow G33 1AP.

Information on Southern Lights

Southern Lights was co-founded in 2003, by Geoffrey Bennett after BSE discoveries in US and Canada left a gap in the market for a New Zealand-based bovine supply chain for medical device manufacturers. It is based in the North Island of New Zealand, and benefits from the logistical advantage of being close to a readily available and consistent supply of source tissue from a country ranked by the World Organisation for Animal Health as a “negligible BSE risk” country. Southern Lights Biomaterials is a provider of processed and semi-processed biomaterials to medical device manufacturers, to an international client base. In addition, it provides consultancy services focussing on collagen, collagen related services and regulatory support to its customers.

Southern Lights’ customers are medical device manufacturers. Its largest customer is based in South Korea and represented 63 per cent of total revenues for the year to 31 March 2014. It entered into a 5 year agreement with Southern Lights’ in April 2011 for the supply of collagen and subsequently extended to 31 March 2018.

In the three years to 31 March 2014, it made sales to 28 different customers. The audited accounts to 31 March 2014 showed revenue of £1,266,524 and EBITDA of £273,911.

Its ISO 13485 certified production and engineering facility are based at Marton, New Zealand. This controlled environment facility includes, ISO Class 7 Clean Rooms, segregated processing areas, specific rooms for separate products to avoid cross contamination and a vacuum freeze drying facility. From these facilities Southern Lights supplies the following products:

- Processed biomaterials – mainly Type 1 Collagen, a ‘rope-forming’ collagen that can be found almost everywhere in the body, making it a logical choice for implantable tissue scaffolds;
- Preserved pericardium – a tough double layered membrane which covers and protects the heart from external shock, providing strength and extensibility and used for manufacturing the operational parts in bioprosthetic heart valves; and
- Semi-processed biomaterials – this primarily relates to pericardium and tendon, but to a lesser degree includes hide, bone, tendon, glands and blood vessels.

In addition, Southern Lights supports established and emerging medical device companies working to develop new or improved products for market. It can deliver engineered biomaterials with specific properties to companies focussed on medical device product design, testing and approval.

Southern Lights manages the supply chain logistics for its customers in relation to delivery of product including transport logistics from Australasia to customer production facilities and export documentation and country-specific import documentation. It also provides regulatory support to assist its customers to meet the requirements for the use of animal products.

Rationale for the Acquisition

The Directors believe that the acquisition of Southern Lights will further de-risk the Company's business model, is a logical strategic extension and complementary in nature to the Company's existing business as well as providing security of supply of high grade collagen from a negligible BSE risk country. Southern Lights Biomaterials is established in the direct sourcing and primary processing of biomaterials, including collagen from New Zealand, a country the World Health Organisation for Animal Health describes as having 'negligible BSE risk' whilst the Company focusses on converting sourced collagen into higher value formulations and devices for its customers. Southern Lights' sourcing of pericardium biomaterials brings an added product and service capability to the group. The Enlarged Group will have operational activities at either end of the supply chain with other benefits, in the Directors' opinion, expected to be increased capacity close to sources of raw material, a wider international customer base with ability to access Asia, and increased IP and know-how associated with the processing of biomaterials.

The Directors believe that the Acquisition is the next step in its objective to build a significant global biomaterials business, that is able to assist customers in expediting the transition of their products from development through to manufacture. The Company will achieve this through provision of cost effective, functional collagen and other biomaterials and devices, across a range of clinical indicators, for the ultimate benefit of providing effective and affordable treatment to patients.

Principal terms of the Acquisition

The consideration will take the form of cash and Consideration Shares up to a maximum amount of NZ\$12 million (circa £6 million).

The initial consideration of NZ\$8 million (circa £4 million) to be paid on Completion will be satisfied by NZ\$5 million (circa £2.5 million) in cash and NZ\$3 million (circa £1.5 million) by the issue of the Consideration Shares. In addition, up to a further NZ\$4 million (circa £2 million) to be satisfied in cash will be made depending on the achievement of certain future performance criteria. If Southern Lights' sales reach NZ\$6.5 million (equivalent to circa £3.25 million) in any of the years to the year ended 31 March 2017, and they are sustained in any of the following years during the period ended 31 March 2018, a maximum of NZ\$4 million (equivalent to circa £2 million) is payable. If the target sales are not met in that period a pro rata amount is payable subject to sales exceeding the base level of NZ\$2.5 million (equivalent to circa £1.25 million).

The Proposals are conditional, *inter alia*, on the passing of the Resolutions and Admission. If the Resolutions are approved by Shareholders, it is expected that trading on AIM in the Existing Ordinary Shares will be cancelled at 4.30 p.m. on 9 December 2014 and Admission will occur and dealings in the Enlarged Issued Share Capital will commence at 8.00 a.m. on 10 December 2014.

Placing

Zeus Capital and Panmure Gordon have conditionally raised £6 million by way of a conditional placing by the Company with investors of the Placing Shares at the Placing Price. The Placing Shares will represent approximately 50.13 per cent. of the Enlarged Issued Share Capital at Admission. Pursuant to the Placing Agreement, the Company, the Directors and the Proposed Director have each given certain warranties (and the Company has given an indemnity) to Zeus Capital and Panmure Gordon, all of which provisions are customary for this type of agreement.

The Placing, which is not underwritten, is conditional, *inter alia*, on:

- the Resolutions being approved;
- the Acquisition being completed in all respects; and

- Admission occurring no later than 10 December 2014 (or such later date as Zeus Capital, Panmure Gordon and the Company may agree, being no later than 24 December 2014).

The estimated net proceeds of the Placing are approximately £5.23 million and will be used to partially fund the initial cash element of the consideration for the Acquisition (the balance coming from existing cash resources) and for working capital. The Directors are subscribing for shares in the Placing at the Placing Price as follows:

<i>Director</i>	<i>Number of Placing Shares to be subscribed</i>	<i>Number of Ordinary Shares held at Admission</i>	<i>Percentage of Enlarged Issued Share Capital</i>
David Evans	7,142,856	12,638,730	7.39%
Stewart White	357,143	3,464,327	2.03%
Gillian Black	357,143	357,143	0.21%
Kevin Wilson	714,286	1,792,296	1.05%
Malcolm Gillies	714,286	1,214,286	0.71%

The participation of the Directors in the Placing constitutes a related party transaction for the purposes of Rule 13 of the AIM Rules (the “Related Party Transaction”). There are no independent directors for the purposes of providing the fair and reasonable statement required under Rule 13 of the AIM Rules. Zeus Capital, the Company's nominated adviser, considers that the terms of the Related Party Transaction are fair and reasonable insofar as Shareholders are concerned.

Proposed Director

Upon completion of the Acquisition it is proposed that Brian Geoffrey Bennett is appointed to the Board with effect from Admission.

Brian Geoffrey Bennett (Geoffrey) (Chief Business Officer, aged 54)

Geoffrey co-founded Southern Lights Biomaterials in 2003 and joined full time in early 2007 after relocating from Calgary, Canada. Geoffrey holds a Bachelor of Commerce degree from the University of Alberta and is a member of the Canadian Institute of Chartered Accountants. He has financial and operational experience including previously holding the chief financial role at three publicly traded Canadian companies (Pelorus Navigation Systems Inc., Circle Energy Inc. and Solid State Geophysical Inc.) as well as experience of early stage enterprises specialising in technology commercialisation.

The Takeover Code

The acquisition of Collbio detailed in the Admission Document dated 10 December 2013 required the Company to apply to the Panel for a waiver of Rule 9 of the Takeover Code in order to permit the acquisition of Collbio and any subsequent issue of shares to David Evans, a director of the Company, upon exercise of an option granted to him by the Company on 29 March 2013 (the “Director Option”) without triggering an obligation on the part of Concert Party to make a general offer to the Shareholders. The Panel agreed, subject to independent shareholders’ approval on a poll, to waive the possible requirement for the Concert Party to make a general offer to all Shareholders where such an obligation would arise as a result of the acquisition of Collbio, the allotment of certain shares in the capital of the Company upon the satisfaction of certain performance targets relating to the deferred consideration payable to certain members of the Concert Party as sellers of Collbio (the “Deferred Consideration Shares”) and any exercise of the Director Option.

At a general meeting of the Company dated 27 December 2013, independent Shareholders approved the waiver by the Panel in respect of the obligation of the Concert Party from making a general offer to shareholders as required by Rule 9 of the Takeover Code resulting from:

- the issue of the Deferred Consideration Shares; and
- the issue of shares pursuant to the exercise of the Director Option.

The issue of the Deferred Consideration Shares and the exercise of the Director Option remain outstanding as at the date of the Admission Document.

At that time the waiver was granted, the maximum interest in the Ordinary Shares the Concert Party could hold was, in aggregate, 42.48 per cent. after the issue of the Deferred Consideration Shares and 45.25 per cent. after exercise of the Director Option in full.

As a result of the Proposals, the maximum interest the Concert Party may hold after the issue of the Deferred Consideration Shares is 44,221,563 (23.65%) and following exercise of the Director Option in full is 48,271,563 (25.27%). Please see paragraphs 16 of the Admission Document for further details.