Universal Biosensors, Inc.
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Universal Biosensors

27 February 2017

Universal Biosensors announces FY2016 unaudited results showing strong revenue growth and positive operating cash flow

Highlights of FY2016

- Revenue from Quarterly Service Fees – generated by sales of OneTouch Verio® blood glucose test strips by LifeScan – up 39% to $17.9M in FY2016 from $12.8M in FY2015, the previous corresponding period (PCP).
- Revenue from supply of test strips for the Siemens Xprecia Stride™ Coagulation Analyzer for their early sales programme is $584,550.
- Net development expense (after the R&D tax rebate) reduced to $8.3 million in FY2016, from $10.5M in PCP.
- Net income of $1.3M in FY2016, an improvement on the net loss of $6.6M in PCP.
- Positive operating cash flow of $7M, up from negative $0.5M in PCP.
- Closing cash balance at 31 December 2016 of $20.4M.

Universal Biosensors (ASX:UBI) today released its full year unaudited financial results for FY2016. Total revenue increased 12% to $18.8 million in FY2016 as compared to the previous corresponding period (PCP) of $16.8M. The primary revenue contributor was the Quarterly Service Fees, generated by strong sales of OneTouch Verio blood glucose test strips by LifeScan, which was up 39% to $17.9M ($12.8 million in PCP).

Revenue from the supply of test strips from Siemens Xprecia Stride™ Coagulation Analyzer was in-line with expectations with the launch phase of the product launch. Revenue from Xprecia Stride™ is expected to expand throughout FY2017, as the actual sales programme rolls out.

Total research and development expenses in FY2016 were down by 20% to $15.9M ($19.8 million in PCP). Net development expense, after the R&D tax rebate, reduced to $8.3M ($10.5 million in PCP). The Company expects to receive a cash rebate of $7.4M as R&D tax incentive income in 2017, for expenses incurred in the FY2016 financial year.

Net income of $1.3 M in FY2016 was a substantial improvement on the net loss of $6.6M as compared to the PCP. General and Administrative expenses decreased slightly by 8% during 2016 to $5.5M ($6M in PCP).

The Company reported positive operating cash flow of $7M reflecting the continuation of a positive trend in improving cash flows over the past few years from negative $7.5M in FY2014 and negative $0.5M in FY2015. This improved cash flow primarily relates to the significant increase in Quarterly Service Fees and management of expenses.

As at December 31, 2016 the Company had a cash balance of $20.4 million.

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Andrew Denver, Executive Chairman of Universal Biosensors said: *"This has been a solid year with a focus on two lead products we developed, LifeScan's OneTouch Verio blood glucose test strips and Siemens' Xprecia Stride™ Coagulation Analyzer and lowering the cost base of the business.*

"We have seen a steady increase of our revenue generated by the Quarterly Service Fees. The Quarterly Service Fees has a 100% margin which bolsters the Company's growing revenue stream, improving overall profitability and cash flow.

"With increasing corporate activity in the US and Europe, we expect to see the revenue stream continue to grow in FY17 for the Xprecia Stride™ Coagulation Analyzer."

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About Universal Biosensors

For additional information in relation to Universal Biosensors, refer to http://www.universalbiosensors.com/announcements.html.

Universal Biosensors is a specialist medical diagnostics company, founded in 2001, that is focused on the development, manufacture and commercialisation of a range of in vitro diagnostic tests for point-of-care use. These tests capitalise on a technology platform which uses a novel electrochemical cell that can be adapted for multiple analytes and provide for enhanced measurements in whole blood.

Forward-Looking Statements

The statements contained in this release that are not purely historical are forward-looking statements within the meaning of the Exchange Act. Forward-looking statements in this release include statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the proposed offering. All forward-looking statements included in this release are based upon information available to us as of the date hereof, and we assume no obligation to update any such forward-looking statement as a result of new information, future events or otherwise. Our actual results could differ materially from our current expectations. We cannot assure you when, if at all, the proposed offering will occur, and the terms of any such offering are subject to change. Factors that could cause or contribute to such differences include, but are not limited to, factors and risks disclosed from time to time in reports filed with the SEC.

Universal Biosensors, Inc.

ASX Preliminary final report – December 31, 2016
Lodged with the ASX under Listing Rule 4.3A

This report is to be read in conjunction with any public announcements made during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 (Cth) and the Listing Rules of the Australian Securities Exchange.

Contents

Universal Biosensors, Inc.
("Company")

1. Reporting period: Year ended December 31, 2016
(Previous corresponding period: Year ended December 31, 2015)

2. Results for announcement to the market

			31-Dec-16 A$	31-Dec-15 A$
Revenue from ordinary activities	Up	12% from $16,774,978	18,830,817	16,774,978
Profit/(loss) from ordinary activities after tax	Up	119% from a loss of $6,576,416	1,250,276	(6,576,416)
Profit/(loss) for the year attributable to members	Up	119% from a loss of $6,576,416	1,250,276	(6,576,416)

Other key results

Refer to Schedule 1

3. Statement of comprehensive income

Refer to Schedule 1.

4. Statement of financial position

Refer to Schedule 1.

5. Statement of cash flows

Refer to Schedule 1.

6. Dividends

There were no dividends declared during the year ended December 31, 2016 and the directors do not propose to pay a dividend in the foreseeable future.

7. Dividend reinvestment plans

Not applicable.

8. Statement of accumulated losses

Refer to Schedule 1.

9. Net tangible asset backing

	December, 31 2016	December, 31 2015
Net tangible asset per share	A$0.08	A$0.08

10. Entities over which control has been gained or lost

A subsidiary of Universal Biosensors Pty Ltd, Hemostasis Reference Laboratory Inc. ("HRL") was incorporated in British Columbia, Canada on November 30, 2016. On December 16, 2016, HRL acquired the assets of the Hemostasis Reference Laboratory business from LifeLabs, Inc. HRL conducts coagulation testing and calibration services for products we manufacture as well as for other international customers in

Hamilton, Canada.

11. Associates and joint ventures

Not applicable.

12. Other significant information

Nil other than that already disclosed.

13. Foreign entities

The financial statements are presented in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

14. Commentary on results to December 31, 2016

Refer Schedule 1

15. Compliance Statement

This report is based on accounts which are in the process of being audited.

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Salesh Balak
Chief Financial Officer
February 27, 2016

SCHEDULE 1

Universal Biosensors, Inc.

2016 Annual Report

Contents

Unless otherwise noted, references on this Annual Report to "Universal Biosensors", the "Company," "Group," "we," "our" or "us" means Universal Biosensors, Inc. ("UBI") a Delaware corporation and, when applicable, its wholly owned Australian operating subsidiary, Universal Biosensors Pty Ltd ("UBS"), and UBS' wholly owned Canadian operating subsidiary, Hemostasis Reference Laboratory Inc. ("HRL").

Management's Discussion and Analysis of Financial Condition and Results of Operations
Universal Biosensors, Inc.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes that appear elsewhere in this Annual Report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs and other forward-looking information, including the types of forward looking statements described in our Form 10-K. Our (and our customer's, partners' and industry's) actual results, levels of activity, performance or achievements may differ materially from those discussed in the forward-looking statements below and elsewhere in our Form 10-K. Factors that could cause or contribute to these differences include those discussed below and elsewhere in our Form 10-K, particularly in "Risk Factors."

Our Business

We are a specialist medical diagnostics company focused on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. Key aspects of our strategy for increasing shareholder value include:

- manufacturing products (test strips and analyzers) for our customers and future partners as required;
- undertaking research and development work for our customers and partners;
- providing support services to our customers and partners;
- extending our electrochemical cell technology and demonstrating the broader application of our technology platform for markets with significant commercial potential;
- seeking to enter into collaborative, strategic or distribution arrangements with other life sciences companies or other industry participants with respect to the development and commercialization of specific tests or specific fields.

Our plan of operations over the remainder of the fiscal year ending December 2017 is to:

- manufacture products;
- undertake research and development work;
- provide the necessary post-market support for our customers and partners;
- demonstrate the broader application of our technology platform for markets with significant commercial potential, focusing initially on enzymatic, immunoassay and molecular diagnostic point-of-care tests; and
- seek to enter into collaborative, strategic or distribution arrangements with other life sciences companies or other industry participants with respect to the development and commercialization of specific tests or specific fields.

We were incorporated in the State of Delaware on September 14, 2001 and our shares of common stock in the form of CHESS Depositary Interests ("CDIs") have been quoted on the Australian Securities Exchange ("ASX") since December 13, 2006. Our securities are not currently traded on any other public market. Our wholly owned subsidiary and primary operating vehicle, UBS was incorporated as a proprietary limited company in Australia on September 21, 2001. UBS conducts our primary research, development and manufacturing activities in Melbourne, Australia. A subsidiary of UBS, Hemostasis Reference Laboratory Inc. ("HRL") was incorporated in British Columbia, Canada on November 30, 2016. On December 16, 2016, HRL acquired the assets of the Hemostasis Reference Laboratory business from LifeLabs, Inc. HRL conducts coagulation testing and calibration services for products we manufacture as well as for other international customers in Hamilton, Canada.

We have rights to an extensive patent portfolio, with certain patents owned by UBS and a number licensed to UBS by LifeScan and other third party licensors. Unless otherwise noted, references to "LifeScan" in this document are references collectively or individually to LifeScan, Inc., and/or LifeScan Europe, a division of Cilag GmbH International, both affiliates of Johnson and Johnson.

We are using our electrochemical cell technology platform to develop point-of-care testing systems for a number of different markets. Our current focus is as set out below:

- Coagulation testing market – we are working with Siemens Healthcare Diagnostics, Inc. ("Siemens") in relation to a range of products for the point-of-care coagulation testing market, pursuant to a Collaboration Agreement with Siemens ("Collaboration Agreement"). The first such product developed with Siemens, the Xprecia Stride™ Coagulation Analyzer, received CE mark approval on December 9,

2014 and US Food and Drug Administration ("FDA") approval on October 4, 2016. The Xprecia Stride™ Coagulation Analyzer is now available in Europe, the Middle East, Africa, Asia Pacific, Latin America and Canada. Under the terms of a supply agreement with Siemens ("Supply Agreement"), UBS is the manufacturer of test strips for this product and two further tests still in development for Siemens.

- Blood glucose – we provide services to LifeScan as required from time to time, pursuant to a Master Services and Supply Agreement ("Master Services and Supply Agreement") and a development and research agreement ("Development and Research Agreement") with LifeScan.
- Other electrochemical-cell based tests – we are working on demonstrating the broader application of our technology platform. We may seek to enter into collaborative arrangements, strategic alliances or distribution agreements with respect to any products or technologies arising from this work.

Results of Operations

Analysis of Consolidated Revenue

Strong sales of the OneTouch Verio® strips have resulted in our total revenue increasing over the past three years. Revenue from the sales of the OneTouch Verio® strips is recorded under the caption "Revenue from Services".

Our total revenue during the 2016 financial year increased by 12% to A$18,830,817 compared to the 2015 financial year. Our 2015 total revenues increased by 76% to A$16,774,978 compared to the 2014 financial year.

Revenue from Products

The financial results of the PT-INR test strips we manufactured on behalf of Siemens during the respective periods are as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Revenue from products	584,550	1,323,564	215,486
Cost of goods sold	(996,788)	(1,136,143)	(313,374)
	(412,238)	187,421	(97,888)
Gross margin	-71%	14%	-45%

We commenced manufacture of the PT-INR test strips on behalf of Siemens during the third quarter of 2014. The movement in revenues is primarily volume driven. The revenues from the manufacture and sale of PT-INR strips to Siemens were initially low as Siemens were undertaking a limited marketing release of the product in Europe. The increase in revenues in 2015 was as a result of the full commercial launch by Siemens of the Xprecia Stride™ Coagulation Analyzer in Europe after successful completion of its limited release. There was a decline in revenue from Siemens in 2016 as they continued to sell inventory purchased from us in 2015. The production margin from the sale of our PT-INR strips is low and volatile, reflecting early stage production. This trend is also representative of a new product entrant within our industry. The sales program for Xprecia Stride™ is expected to expand in the 2017 financial year.

Revenue from Services

We provide various services to our customers and partners. The revenue is grouped into the following categories:

- Product enhancement – a quarterly service fee based on the number of strips sold by LifeScan which falls within a valid claim of certain LifeScan patents is payable to us as an ongoing reward for our services and efforts to enhance the product;
- Contract research and development – we undertake contract research and development on behalf of our customers and partners;
- Other services – ad-hoc services provided on an agreed basis according to our customers and partners requirements.

There are different arrangements for each service being provided. The net margin during the respective periods in relation to the provision of services is as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Revenue from services:			
Quarterly service fee	17,850,001	12,828,861	6,448,033
Contract research and development	0	1,955,340	1,750,486
Other services	396,266	667,213	1,115,679
	18,246,267	15,451,414	9,314,198
Cost of services	(154,998)	(244,073)	(242,453)
Net margin	18,091,269	15,207,341	9,071,745

Quarterly service fee - The quarterly service fee from LifeScan increased by 39% during the 2016 financial year compared to the 2015 financial year and by 99% during the 2015 financial year when compared to the 2014 financial year, reflecting ongoing market penetration and growth.

The quarterly service fee for each quarter in a LifeScan financial year is calculated based on the number of OneTouch Verio® blood glucose test strips sold in such LifeScan financial year as follows: US$0.0125 per strip for the first 500 million strips sold in a financial year and US$0.0075 per strip for sales in excess of 500 million strips in such financial year. The 2015 financial year was the first year wherein the volume of OneTouch Verio® blood glucose test strips sold exceeded 500 million strips. Quarterly service fees are reported and paid by LifeScan in USD. Accordingly, revenues recognized by us from quarterly services fees paid by LifeScan were impacted by the movement of the AUD against the USD over the periods covered above. In the years ended December 31, 2016 and 2015, the year-over-year foreign currency movements relative to the AUD dollar would have had an unfavourable impact (exclusive of hedging impact) on our reported results of A$2,552,391 and A$2,023,784, respectively. This is a non-GAAP measure. The foreign currency impact has been calculated using the average exchange rate for the 2014 financial year as base and using this to recalculate the quarterly service fees for the 2015 and 2016 financial years. Differences arising between this and the actual revenues recorded for the 2015 and 2016 financial years resulted in the foreign currency movements.

LifeScan has the ability to buy out, or "convert," its obligation to pay quarterly service fees to us in certain situations set out in the Master Services and Supply Agreement. At any time after the end of the quarter following receipt by us of an aggregate of US$45 million in quarterly service fees, LifeScan has the option to give notice of its election to convert its obligation to continue paying the quarterly service fees. In the event LifeScan delivers notice of conversion, LifeScan will remain obligated to pay the quarterly service fees for the remainder of LifeScan's financial year in which the notice was given, and, after the end of that financial year, LifeScan must pay us a one-time lump sum fee to buy out its obligation to pay future quarterly service fees. The amount of this one-time lump sum service fee is calculated by multiplying the sum of all quarterly service fees for the LifeScan financial year in which notice of conversion is given, by the applicable multiplier for such financial year as set forth in the Master Services and Supply Agreement. If LifeScan gives notice of conversion during LifeScan's 2017 financial year, the applicable multiplier is 2.2, and if LifeScan gives notice of conversion during LifeScan's 2018 financial year or any subsequent LifeScan financial year, the applicable multiplier is 2.0. As of December 31, 2016, we had received aggregate quarterly service fees of US$31.6 million. The amount of the quarterly service fee for the quarter ended December 31, 2016 is US$3.1 million, which amount had not yet been paid as of December 31, 2016.

By way of illustration only:

- *If the aggregate quarterly service fees received by us from LifeScan first exceed US$45 million in the second quarter of LifeScan's 2017 financial year, then the earliest LifeScan could deliver notice of conversion to us is the third quarter of LifeScan's 2017 financial year, and if LifeScan sells 2 billion strips in LifeScan's 2017 financial year, then:*
    - *the total 2017 financial year quarterly service fees payable by LifeScan to us would equal US$17.5 million – i.e., 500,000,000*US$0.0125 + 1,500,000,000*US$0.0075; and*

  - *the one-time lump sum fee that would be payable to us after the end of LifeScan's 2017 financial year would equal US$38.5 million – i.e., US$17.5 million multiplied by 2.2; and*
- *If the aggregate quarterly service fees received by us from LifeScan first exceed US$45 million in the fourth quarter of LifeScan's 2017 financial year, then the earliest LifeScan could deliver notice of conversion to us is the first quarter of LifeScan's 2018 financial year, and if LifeScan sells 2 billion strips in LifeScan's 2018 financial year, then:*
  - *the total 2018 financial year quarterly service fees payable to us would equal US$17.5 million – i.e., 500,000,000*US$0.0125 + 1,500,000,000*US$0.0075; and*
  - *the one-time lump sum fee that would be payable to us after the end of LifeScan's 2018 financial year would equal US$35.0 million – i.e., US$17.5 million multiplied by 2.0.*

The above scenarios and calculations are an illustration only intended to provide an example of how the conversion option would operate, and there can be no assurance as to when, if ever, we will have received an aggregate of US$45 million in quarterly service fees from LifeScan, or as to the number of OneTouch Verio® strips that LifeScan may sell in any financial year, or as to when, if ever, LifeScan will exercise its conversion option.

LifeScan's obligation to pay quarterly service fees will also terminate if LifeScan terminates the Master Services and Supply Agreement for our uncured material breach, in the event of a change of control of our company, or for certain regulatory reasons.

Contract research and development - The nature and scope of contract research and development is determined by our customers and partners based upon their requirements and therefore our revenues and margins tend to fluctuate. We did not generate any revenue from contract research and development during 2016. Revenue from contract research and development related to services provided to Siemens during 2014 and 2015 were as follows:

- In December 2014, the Company delivered on its third milestone under the Collaboration Agreement with Siemens when it completed the development work of the Xprecia Stride™ Coagulation Analyzer and the product was launched by Siemens in Europe. Of the total amount of A$1,750,486 (equivalent to US$1,428,571) recognized as revenue from services in 2014 for this milestone, A$1,225,340 (equivalent to US$1.0 million) relates to the achievement of the milestone whilst the balance relates to a portion of the deferred US$3 million up-front payment allocated to these milestones.
- In July 2015, the Company delivered on its fourth milestone when Siemens made a premarket 510(k) submission to the FDA for regulatory clearance to sell the Xprecia Stride™ Coagulation System in the US. Of the total amount of A$1,955,340 (equivalent to US$1,428,571) recognized as revenue from services in 2015 for this milestone, A$1,368,738 (equivalent to US$1,000,000) relates to the achievement of the milestone whilst the balance relates to a portion of the deferred US$3 million up-front payment allocated to these milestones.

Other services - We generated revenues principally from Siemens based on work undertaken for them.

Contribution from Products & Services

The net contribution from our products and services is as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Quarterly service fees	17,850,001	12,828,861	6,448,033
Manufacturing contribution	(412,238)	187,421	(97,888)
Milestone payments	0	1,955,340	1,750,486
Other services	241,268	423,140	873,226
Contribution from products & services	17,679,031	15,394,762	8,973,857

The increase in period-to-period total contributions from products and services reflected in the table above is primarily represented by the growth in the quarterly service fee which has a 100% margin. The manufacturing

contribution for financial years 2014 to 2016 represents sale of our PT-INR strips the production margin for which is low and volatile, reflecting early stage production. The third and the fourth Siemens milestones were delivered by us in December 2014 and July 2015, respectively. There were no milestones delivered by us in 2016. Contribution from other services fluctuated over the period due to our partners R&D services requirements.

The Australian consumer price index rose 1.5% over the twelve months to the December quarter 2016 and it did not have a material impact on our net sales, revenue and income.

Research and Development Expenses

Research and development expenses are related to the development of new technologies and products based on the electrochemical cell platform.

The Company conducts research and development activities to build an expanding portfolio of product-based revenues and cash flows and increase the value of UBI's core technology assets. Research is focused on demonstrating technical feasibility of new technology applications. Development activity is focused on turning these technology platforms into commercial-ready product and represents the majority of the Company's research and development expenses.

Research and development expenses consist of costs associated with research activities, as well as costs associated with our product development efforts, including pilot manufacturing costs. Research and development expenses include:

- consultant and employee related expenses, which include consulting fees, salaries and benefits;
- materials and consumables acquired for the research and development activities;
- external research and development expenses incurred under agreements with third party organizations and universities; and
- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation of leasehold improvements and equipment and laboratory and other supplies.

Our principal research and development activities can be described as follows:

(a) Blood coagulation testing

In September 2011 we entered into a Collaboration Agreement with Siemens which was amended in September 2012 and March 2016, pursuant to which we will develop a range of test strips and reader products for the hospital point-of-care and alternative site coagulation testing markets. The first such product developed with Siemens, the Xprecia Stride™ Coagulation Analyzer, received CE mark approval on December 9, 2014 and US Food and Drug Administration ("FDA") approval on October 4, 2016. The Xprecia Stride™ Coagulation Analyzer is now available in Europe, the Middle East, Africa, Asia Pacific, Latin America and Canada. In 2012, we entered into a Supply Agreement with Siemens under which we manufacture and supply the test strips for this product and will manufacture and supply the test strips for two further tests still in development with Siemens.

(b)DNA/RNA

We have undertaken some early stage feasibility work assessing the possibility of using DNA binding chemistries to build a low-cost test for DNA, RNA and as a possible alternative method for improving the sensitivity of protein assays. This concept work is at an early stage and may not yield any positive results. To enable us to access certain molecular diagnostic technology, we entered into a license with SpeeDx Pty Ltd ("SpeeDx"). SpeeDx is an Australian technology company focused on the development of catalytic nucleic acid enzymes for medical diagnostics and other applications.

Research and development expenses for the respective periods are as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Research	1,230,652	1,296,396	1,194,323
Development	14,636,810	18,467,446	15,941,728
Research and development expenses	15,867,462	19,763,842	17,136,051

Depending on the scope of research and development activities we undertake and the stages of development of each of these activities, our research and development expenditure will fluctuate.

In converting an idea or a concept into a commercial product, a number of development stages are required. As an idea or concept is developed into a commercial-ready product, technical risk reduces, but the effort and cost expended increases. In our research and development program, the first phase is conducting exploratory research and feasibility studies. In this phase, the idea is investigated by a small focused team to establish the viability of the concept as the base for a product. Once this hurdle has been passed, the project enters the development phases, which include building prototype strips and instruments, finalizing the product design, carrying out extensive testing, creating the required documentation and developing or validating the product manufacturing processes. This requires a larger group of people and a higher use of materials compared to the research phase, so is typically more expensive, but necessary to be able to commercialize a product.

Research and development expenditure decreased by 20% during 2016 compared to 2015 and increased by 15% during 2015 compared to 2014. During these three years, our research and development activities were primarily focused around the blood coagulation platform. The increase in 2015 principally reflects the effort required to complete the latter stages of the development phase prior to launch of the various Siemens tests we are developing including our own PT-INR test for use in decentralized settings. In April 2016, we put the development of our own PT-INR self-testing device on hold in response to proposed regulatory changes and market factors which resulted in a decline in the level of our research and development expenditure spend in 2016.

Research and development expenses, net of the research and development tax incentive income for the respective periods are as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Research and development expenses	15,867,462	19,763,842	17,136,051
Research and development tax incentive income	(7,562,172)	(9,224,349)	(9,935,083)
	8,305,290	10,539,493	7,200,968

Included in the research and development tax incentive income for the 2014, 2015 and 2016 financial years is an amount of A$1,735,083, A$24,349 and A$162,172, respectively which relates to research and development tax incentive income the Company received from the Australian Government for the years ended December 31, 2013, 2014 and 2015 following a change in the original estimate. We expect to receive A$7,400,000 as research and development tax incentive income for the 2016 financial year.

The non-cash components of depreciation and share based payments expense included in the research and development expenditure are as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Depreciation	2,308,667	2,349,502	2,296,374
Share based payments	(996,802)	(48,750)	(461,824)
	1,311,865	2,300,752	1,834,550

While we have a degree of control as to how much we spend on research and development activities in the future, we cannot predict what it will cost to complete our individual research and development programs successfully or when or if they will be commercialized. The timing and cost of any program is dependent upon achieving technical objectives, which are inherently uncertain.

In addition, our business strategy contemplates that we may enter into collaborative arrangements with third parties for one or more of our non-blood glucose programs. In the event that we are successful in securing such third party collaborative arrangements, the third party may direct the research and development activities and may contribute towards all or part of the cost of these activities, both of which will influence our research and development expenditure. Research and development activities undertaken on behalf of our customers and partners were A$7,125,162, A$9,014,377 and A$9,971,035, respectively for 2016, 2015 and 2014.

General and Administrative Expenses

General and administrative expenses currently consist principally of salaries and related costs, including stock option expense, for personnel in executive, business development, finance, accounting, information technology and human resources functions. Other general and administrative expenses include depreciation, repairs and maintenance, insurance, facility costs not otherwise included in research and development expenses, consultancy fees and professional fees for legal, audit and accounting services. General and administrative expenses are generally fixed in nature.

General and administrative expenses for the respective periods are as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
General and administrative expenses	5,534,855	6,027,768	5,623,748

General and administrative expenses decreased by 8% during 2016 compared to 2015 and increased by 7% during 2015 compared to 2014. Decrease in general and administrative expenses occurred as a result of reversal of options for departing employees and also reflect management's ongoing efforts to restrict spending on non-core activities. Increase in general and administrative expenses during 2015 was primarily driven by increase in employee emoluments noting that shares and options, being non-cash costs, were issued to employees twice during the 2015 financial year. Shares and options issued in the first quarter of 2015 were however for the 2014 financial year.

The non-cash components of depreciation and share based payments expense included in the general and administrative expenditure are as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Depreciation	125,309	126,438	124,093
Share based payments	(321,007)	(16,182)	(166,044)
	(195,698)	110,256	(41,951)

Interest Income

Interest income decreased by 17% during 2016 compared to 2015 and decreased by 7% during 2015 compared to 2014. The decrease in interest income is generally attributable to the lower amount of funds available for investment in Australian currency and lower interest rates on offer. As at December 31, 2016, 74% (2015: 98% and 2014: 93%) of our funds were held in US denominated currency which currently does not produce any investment interest.

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Interest income	201,096	242,574	260,904

Interest Expense

Interest expense predominantly relates to interest being charged on a short-term borrowing initiated by the Company each year. These short-term loans are taken out every year to fund our insurance premiums and are repaid during the financial year. Decrease in interest expense is in line with the interest rate charged to us every year. The interest rates were 2.60%, 2.84% and 2.88% for the financial years 2016, 2015 and 2014, respectively.

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Interest expense	8,436	15,106	15,905

Financing Costs

In December 2013, UBS accessed new capital via a US$25,000,000 loan facility of which US$15,000,000 was drawn in December 2013. The breakdown of the financing costs is as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Interest expense	2,370,860	2,358,016	1,962,740
Other debt issuance costs	523,440	950,052	683,352
	2,894,300	3,308,068	2,646,092

Interest expense relates to applicable interest of 10.5% levied on the loan. The debt issuance costs were recorded as deferred issuance costs and are amortized as interest expense, using the effective interest method, over the term of the loan. Increase in financing costs in 2015 when compared to 2014 are as a result of the costs incurred during the first quarter of 2015 in extending UBI's option to draw down a further US$10 million until July 31, 2015. This has been recorded as "Other debt issuance costs" and includes a one-time fee of US$200,000 and a commitment fee of 2% of the unused borrowing commitment under the Credit Agreement. The commitment fee ceased to be charged as at July 31, 2015. As the loan is denominated in USD, interest expense and other charges relating to the loan are subject to variation with movements in exchange rates. In the years ended December 31, 2016 and 2015, the year-over-year foreign currency movements relative to the AUD dollar would have had a favourable impact (exclusive of hedging impact) on our reported results of A$408,135 and A$400,655, respectively.

Patent Fees

We have an obligation to pay 50% of the patent fees in respect of the patents we license from LifeScan which were paid by LifeScan prior to the date of the first commercial sale of a non-glucose product that falls under the licensed patents and 50% of the patent fees incurred by LifeScan in respect of such patents thereafter. This obligation was triggered with the first commercial sale of the Xprecia Stride™ Coagulation Analyzer by Siemens in December 2014. An amount of US$1.75 million was initially accrued in December 2014. However, the Company and LifeScan subsequently agreed to revise this amount to US$517,831 (equivalent to A$708,775) during the fourth quarter of 2015. The repayment of this amount to LifeScan, which commenced in November 2015, is being made over a 24 month period in equal monthly installments. The reimbursement of patent fees payable to LifeScan have been recorded as "Other liability" in consolidated balance sheets. As a result of the revision of the amount due to LifeScan, this resulted in reversal of the patent fees in 2014. This amount has been recorded as "Patent Fees" in the consolidated statements of comprehensive income.

Marketing Support Payment

During 2009, LifeScan chose not to proceed with the registration of the then current product but to proceed with an enhanced product, called OneTouch Verio®, and acknowledged that there would be a delay as a result. As a result of this change, LifeScan agreed to pay additional amounts per strip manufactured by us in 2010 and 2011 up to a specified volume limit ("manufacturing initiation payments"). At the same time, we agreed to pay LifeScan a marketing support payment in each of the two years following the first year in which 1 billion strips are sold by LifeScan equal to 40% of the total manufacturing initiation payments made. LifeScan sold just over 900 million strips in the 2015 financial year. Management concluded that this loss contingency be accrued in 2015 as "Other liability" in the consolidated balance sheets as it is both probable and the amount can be reliably estimated. LifeScan has sold over a billion strips during the 2016 financial year. The total amount of marketing support payments to be paid to LifeScan is US$2,048,602 (equivalent to A$2,804,000).

Other

Recorded under this caption are research and development tax incentive income and foreign exchange movements.

The Company had recorded research and development tax incentive income of A$6,279,954 for 2013 but received an amount of $8,015,037 as research and tax development incentive income in September 2014. Of the A$9,935,083 research and development tax incentive recorded for the year ended December 31, 2014, A$1,735,083 relate to research and development tax incentive income the Company received from the Australian Government for the year ended December 31, 2013 following a change in original estimate. Similarly, included in the 2015 and 2016 research and development tax incentive income are amounts of A$24,349 and A$162,172, respectively which relates to prior years change in estimate of the research and development tax incentive income. The Company expects to receive and has recorded research and development tax incentive income of A$7,400,000 for 2016 in "Other current assets". The remaining balance after the research and development tax incentive income for all years under this caption is primarily represented by foreign exchange movements arising from the settlement of foreign denominated transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

The research and development tax incentive receivable has been recorded as "Other current assets" in the consolidated balance sheets.

The research and development tax incentive is one of the key elements of the Australian Government's support for Australia's innovation system. It was developed to assist businesses recover some of the costs of undertaking research and development. The research and development tax incentive provides a tax offset to eligible companies that engage in research and development activities.

Companies engaged in research and development may be eligible for either:

- a 45% refundable tax offset for entities with an aggregated turnover of less than A$20 million per annum, (the legislative rate for the tax year commencing July, 1 2016 will be reduced to 43.5%), or
- a 40% non-refundable tax offset for all other entities (the legislative rate for the tax year commencing July, 1 2016 will be reduced to 38.5%).

Critical Accounting Estimates and Judgments

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates.

We believe that of our significant accounting policies, which are described in the notes to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, we believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

(a) Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is reasonably assured. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred.

In addition, the Company enters into arrangements, which contain multiple revenue generating activities. The revenue for these arrangements is recognized as each activity is performed or delivered, based on the relative fair value and the allocation of revenue to all deliverables based on their relative selling price. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocation of revenue to deliverables, vendor-specific objective evidence, third-party evidence of selling price and the Company's best estimate of selling price. The Company's process for determining its best estimate of selling price for deliverables without vendor-specific objective evidence or third-party evidence of selling price involves management's judgment. The Company's process considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable.

(b) Stock-Based Compensation

We account for stock-based employee compensation arrangements using the modified prospective method as prescribed in accordance with the provisions of ASC 718 – Compensation – Stock Compensation.

Each of the inputs to the Trinomial Lattice model is discussed below.

Share Price and Exercise Price at Valuation Date

With the exception of Zero Exercise Price Employee Options ("ZEPOs"), the exercise price of the options granted has been determined using the closing price of our common stock trading in the form of CDIs on ASX at the time of grant of the options. The exercise price of ZEPOs is nil. The ASX is the only exchange upon which our securities are quoted.

Volatility

We applied volatility having regard to the historical price change of our shares in the form of CDIs available from the ASX.

Time to Expiry

All options granted under our share option plan have a maximum 10 year term and are non-transferable.

Risk Free Rate

The risk free rate which we applied is equivalent to the yield on an Australian government bond with a time to expiry approximately equal to the expected time to expiry on the options being valued.

(c) Income Taxes

We apply ASC 740 – Income Taxes which establishes financial accounting and reporting standards for the effects of income taxes that result from a company's activities during the current and preceding years. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Where it is more likely than not that some portion or all of the deferred tax assets will not be realized the deferred tax assets are reduced by a valuation allowance. The valuation allowance is sufficient to reduce the

deferred tax assets to the amount that is more likely than not to be realized.

(d) Impairment of Long-Lived Assets

We review our capital assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. In performing the review, we estimate undiscounted cash flows from products under development that are covered by these patents and licenses. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset. If the evaluation indicates that the carrying value of an asset is not recoverable from its undiscounted cash flows, an impairment loss is measured by comparing the carrying value of the asset to its fair value, based on discounted cash flows.

(e) Warrants

In connection with our US$15 million loan facility, we issued to the Lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI's common stock in the form of CDIs at a price of A$1.00 per share. The fair value of the warrants to purchase common stock is estimated using the Trinomial Lattice model. Each of the inputs to the Trinomial Lattice model is discussed below.

Exercise Price at Valuation Date

The exercise price of the options has been determined as stated in the Credit Agreement. For further details, see Notes to Consolidated Financial Statements – *Note 16, Summary of Significant Accounting Policies – Borrowings – Athyrium Credit Agreement.*

Volatility

We applied volatility having regard to the historical price change of our shares in the form of CDIs available from the ASX.

Time to Expiry

The warrants have a term of seven years.

Risk Free Rate

The risk free rate which we applied is equivalent to the yield on an Australian government bond with a time to expiry approximately equal to the expected time to expiry on the warrants to purchase common stock being valued.

(f) Research and development tax incentive income

Research and development tax incentive income is recognized when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured. The research and development tax incentive is one of the key elements of the Australian Government's support for Australia's innovation system and is supported by legislative law primarily in the form of the Australian Income Tax Assessment Act 1997 as long as eligibility criteria are met.

Management has assessed the Company's research and development activities and expenditures to determine which activities and expenditures are likely to be eligible under the tax incentive regime described above. At each period end management estimates the refundable tax offset available to the Company based on available information at the time. This estimate is also reviewed by external tax advisors on an annual basis.

Financial Condition, Liquidity and Capital Resources

Net Financial Assets/(Liabilities)

Our net financial assets/(liabilities) position is shown below:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Financial assets:			
Cash and cash equivalents	20,402,322	14,350,307	16,329,829
Accounts receivables	4,848,009	3,153,584	3,799,705
Total financial assets	25,250,331	17,503,891	20,129,534
Debt:			
Short term borrowings	369,630	324,459	498,890
Long term secured loan	20,286,827	19,868,560	17,499,194
Total debt	20,656,457	20,193,019	17,998,084
Net financial assets/(liabilities)	4,593,874	(2,689,128)	2,131,450

Since inception, we have financed our business primarily through the issuance of equity securities, funding from strategic partners, government grants and rebates (including the research and development tax incentive income), cash flows generated from operations, and the loan discussed below.

On December 19, 2013 we entered into the Credit Agreement which was subsequently amended in January 2015 with Lenders for a US$25 million secured term loan. The term loan has a maturity date of December 19, 2018 and bears interest at 10.5% per annum. Interest payments are due quarterly over the five-year term of the term loan and, other than as described elsewhere herein, we are not required to make payments of principal for amounts outstanding under the term loan until the Maturity Date. Subject to certain exceptions, the term loan is secured by substantially all of our assets, including our intellectual property. For further details, see Notes to Consolidated Financial Statements - *Summary of Significant Accounting Policies – Borrowings – Athyrium Credit Agreement*.

To a large extent, receipt of the research and development tax incentive income of A$9,362,172 in September 2016 and increase in quarterly service fees has resulted in an improvement to our net financial asset position. Note a major portion of our net financial assets/(liabilities) is denominated in USD, including the long term secured loan hence is subject to variation with movements in exchange rates.

We believe we have sufficient cash and cash equivalents to fund our operations for at least the next twelve months. Liquidity risk is the risk that the Company may encounter difficulty meeting obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The purpose of liquidity management is to ensure that there is sufficient cash to meet all the financial commitments and obligations of the Company as they come due. In managing the Company's capital, management estimates future cash requirements by preparing a budget and a multi-year plan for review and approval by the Board. The budget is reviewed and updated periodically and establishes the approved activities for the next twelve months and estimates the costs associated with those activities. The multi-year plan estimates future activity along with the potential cash requirements and is based upon management's assessment of current progress along with the expected results from the coming years' activity. Budget to actual variances are prepared and reviewed by management and are presented on a regular basis to the Board of Directors.

The carrying value of the cash and cash equivalents and the accounts receivables approximates fair value because of their short-term nature.

We regularly review all our financial assets for impairment. There were no impairments recognized for the years ended December 31, 2016, 2015 and 2014.

Derivative Instruments and Hedging Activities

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. For the years ended December 31, 2016, 2015 and 2014, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives is based on the market approach using observable market inputs, such as forward rates, and incorporates non-performance risk (the credit standing of

the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2.

We had no outstanding contracts as at December 31, 2016, 2015 and 2014, respectively. The fair value of these contracts at December 31, 2016, 2015 and 2014 were nil. During the years ended December 31, 2016, 2015 and 2014, we recognized gains of nil. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the years ended December 31, 2016, 2015 and 2014. For further details, see Notes to Consolidated Financial Statements – Note 2, *Summary of Significant Accounting Policies.*

Measures of Liquidity and Capital Resources

The following table provides certain relevant measures of liquidity and capital resources:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Cash and cash equivalents	20,402,322	14,350,307	16,329,829
Working capital	29,302,615	24,041,164	23,779,492
Ratio of current assets to current liabilities	5.93 : 1	6.03 : 1	4.66 : 1
Shareholders' equity per common share	0.08	0.08	0.11

The movement in cash and cash equivalents and working capital during the above periods was primarily due to cash flows generated from/used in operations including outflows arising from the effort required to complete the development of the research and development products, servicing of the secured loan and the timing of payments and accruals in the ordinary course of business. The increased cash flows during 2016 are primarily a result of increased quarterly service fees from LifeScan, prepayment of milestones totaling US$3.75 million from Siemens and the receipt of the research and development tax incentive income of A$9,362,172 relating to the 2015 research and development spend.

We have not identified any collection issues with respect to receivables.

Summary of Cash Flows

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Cash provided by/(used in):			
Operating activities	7,048,670	(527,840)	(7,468,062)
Investing activities	(1,272,160)	(1,270,392)	(947,386)
Financing activities	45,171	(1,378,658)	261,742
Net increase/(decrease) in cash and cash equivalents	5,821,681	(3,176,890)	(8,153,706)

The Company has generated positive cash flows in 2016.

Our net cash provided by or used in operating activities for all periods represents receipts offset by payments for our research and development projects including efforts involved in establishing and maintaining our manufacturing operations, interest on our long term secured loan and general and administrative expenditure. The continuous improvement in operating cash flows during the 2014 to 2016 financial years is primarily due to the increased receipts from quarterly service fees from LifeScan, receipt of milestone payments from Siemens and receipt of the research and development tax incentive income.

Our net cash used in investing activities for all periods is primarily for the purchase of various plant and equipment and for the various continuous improvement program we are undertaking.

Our net cash used in financing activities principally represents financing charges made to the Lenders

pursuant to the Credit Agreement.

Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2016 are:

	A$
Less than 1 year	693,462
1 – 3 years	960,463
3 – 5 years	7,573
More than 5 years	0
Total minimum lease payments	1,661,498

The above relates to our operating lease obligations in relation to the lease of our premises and certain office equipment.

Contractual Obligations

Our future contractual obligations at December 31, 2016 were as follows:

	Payments Due By Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
	A$	A$	A$	A$	A$
Asset Retirement Obligations (1)	2,600,000	0	2,600,000	0	0
Operating Lease Obligations (2)	1,661,498	693,462	960,463	7,573	0
Purchase Obligations (3)	1,112,655	1,112,655	0	0	0
Long term secured loan (4)	20,286,827	0	20,286,827	0	0
Financing costs (5)	4,768,605	2,427,533	2,341,072	0	0
Other liability (6)	3,453,710	354,387	3,099,323	0	0
Other Long-Term Liabilities on Balance Sheet (7)	125,993	0	113,431	11,592	970
Total	34,009,288	4,588,037	29,401,116	19,165	970

(1) Represents legal obligations associated with the retirement and removal of long-lived assets.
(2) Our operating lease obligations relate primarily to the lease of our premises.
(3) Represents outstanding purchase orders
(4) US$15 million payable to the lenders on maturity date pursuant to the Credit Agreement.
(5) Interest payable to the lenders pursuant to the Credit Agreement
(6) Represents patent fees and marketing support fees payable to LifeScan
(7) Represents long service leave owing to the employees.

Segments

We operate in one segment. Our principal activities are research and development, commercial manufacture of approved medical or testing devices and the provision of services including contract research work.

We operate predominantly in one geographical area, being Australia and continue to derive significant revenues from LifeScan.

The Company's material long-lived assets are all based in Australia.

Recent Accounting Pronouncements

See Notes to Consolidated Financial Statements – *Note 2, Summary of Significant Accounting Policies.*

Financial Risk Management

The overall objective of our financial risk management program is to seek to minimize the impact of foreign exchange rate movements and interest rate movements on our earnings. We manage these financial exposures through operational means and by using financial instruments. These practices may change as economic conditions change.

Foreign Currency Market Risk

We transact business in various foreign currencies, including U.S. dollars and Euros. We have established a foreign currency hedging program using forward contracts to hedge the net projected exposure for each currency and the anticipated sales and purchases in U.S. dollars and Euros. The goal of this hedging program is to economically guarantee or lock-in the exchange rates on our foreign exchange exposures. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The Company is currently using natural hedging to limit currency exposure.

Specifically, in relation to the secured term loan, we have established a program to reduce or even eliminate the impact of any foreign exchange exposure. The secured term loan is denominated in USD and the bullet repayment of US$15 million in December 2018 is to be made in USD as well. The goal is to build our USD cash reserves which will reduce our foreign exchange exposure until the cash reserves reach US$15 million at which time the foreign exchange exposure from the principal of our term loan will be eliminated. We expect to build our USD cash reserves from our US receipts to US$15 million before the secured term loan is repaid. On this basis, during the interim period, our foreign exchange exposure will only be to translation losses and there should not be any realised losses when the secured term loan is repaid.

The Company has recorded foreign currency transaction gains/(losses) of A$112,075, (A$959,343) and (A$918,479) in each of the years ended December 31, 2016, 2015 and 2014, respectively.

Interest Rate Risk

Since the majority of our investments are in cash and cash equivalents in U.S. or Australian dollars, our interest income is not materially affected by changes in the general level of U.S. and Australian interest rates. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. Our investment portfolio is subject to interest rate risk but due to the short duration of our investment portfolio, we believe an immediate 10% change in interest rates would not be material to our financial condition or results of operations.

Inflation

Our business is subject to the general risks of inflation. Our results of operations depend on our ability to anticipate and react to changes in the price of raw materials and other related costs over which we may have little control. Our inability to anticipate and respond effectively to an adverse change in the price could have a significant adverse effect on our results of operations. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases.

Universal Biosensors, Inc.

Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
	A$	A$
ASSETS		
Current assets:		
Cash and cash equivalents	20,402,322	14,350,307
Inventories, net	839,250	355,268
Accounts receivable	4,848,009	3,153,584
Prepayments	1,078,335	1,408,943
Other current assets	8,074,384	9,555,441
Total current assets	35,242,300	28,823,543
Non-current assets:		
Property, plant and equipment	36,809,266	35,563,364
Less accumulated depreciation	(25,282,248)	(22,655,162)
Property, plant and equipment - net	11,527,018	12,908,202
Other non-current assets	3,220,000	3,220,000
Total non-current assets	14,747,018	16,128,202
Total assets	49,989,318	44,951,745
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	547,324	894,677
Accrued expenses	1,785,134	1,905,724
Borrowings	369,630	324,459
Other liabilities	1,713,743	354,387
Employee entitlements provision	1,523,854	1,303,132
Total current liabilities	5,939,685	4,782,379
Non-current liabilities:		
Asset retirement obligations	2,600,000	2,600,000
Employee entitlements provision	125,993	172,574
Long term secured loan	20,286,827	19,868,560
Other liabilities	1,415,563	3,099,323
Deferred revenue	6,366,975	1,173,204
Total non-current liabilities	30,795,358	26,913,661
Total liabilities	36,735,043	31,696,040
Commitments and contingencies	0	0
Stockholders' equity:		
Preferred stock, US$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2016 (2015: nil)		
Common stock, US$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 176,386,884 shares in 2016 (2015: 176,112,584)	17,639	17,611
Additional paid-in capital	93,167,465	94,419,308
Accumulated deficit	(80,882,902)	(74,306,486)
Current year income/(loss)	1,250,276	(6,576,416)
Accumulated other comprehensive income	(298,203)	(298,312)
Total stockholders' equity	13,254,275	13,255,705
Total liabilities and stockholders' equity	49,989,318	44,951,745

See accompanying notes to the financial statements

Universal Biosensors, Inc.

Consolidated Statements of Comprehensive Income/(Loss)

	Years Ended December 31,		
	2016	2015	2014
	A$	A$	A$
Revenue			
Revenue from products	584,550	1,323,564	215,486
Revenue from services	18,246,267	15,451,414	9,314,198
Total revenue	18,830,817	16,774,978	9,529,684
Operating costs & expenses			
Cost of goods sold	996,788	1,136,143	313,374
Cost of services	154,998	244,073	242,453
Total cost of goods sold & services	1,151,786	1,380,216	555,827
Contribution from products & services	17,679,031	15,394,762	8,973,857
Other operating costs & expenses			
Research and development	15,867,462	19,763,842	17,136,051
General and administrative	5,534,855	6,027,768	5,623,748
Total operating costs & expenses	21,402,317	25,791,610	22,759,799
Loss from operations	(3,723,286)	(10,396,848)	(13,785,942)
Other income/(expense)			
Interest income	201,096	242,574	260,904
Interest expense	(8,436)	(15,106)	(15,905)
Financing costs	(2,894,300)	(3,308,068)	(2,646,092)
Patent fees	0	1,404,184	(2,133,626)
Marketing support payment	0	(2,804,000)	0
Other	7,675,202	8,300,848	9,004,534
Total other income	4,973,562	3,820,432	4,469,815
Net income/(loss) before tax	1,250,276	(6,576,416)	(9,316,127)
Income tax benefit/(expense)	0	0	0
Net income/(loss) before tax	$ 1,250,276	$ (6,576,416)	$ (9,316,127)
Earnings per share			
Basic net income/(loss) per share	0.01	(0.04)	(0.05)
Diluted net income/(loss) per share	0.01	(0.04)	(0.05)
Other comprehensive gain/(loss), net of tax:			
Foreign currency translation reserve	109	0	0
Reclassification for gains realized in net income	0	0	0
Other comprehensive gain/(loss)	109	0	0
Comprehensive gain/(loss)	1,250,385	(6,576,416)	(9,316,127)

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income/(Loss)

	Ordinary shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
		A$	A$	A$	A$	A$
Balances at January 1, 2014	175,600,605	17,560	94,955,051	(64,990,359)	(298,312)	29,683,940
Net loss	0	0	0	(9,316,127)	0	(9,316,127)
Exercise of stock options issued to employees	8,333	0	0	0	0	0
Shares issued to employees	2,040	1	999	0	0	1,000
Stock option expense	0	0	(627,868)	0	0	(627,868)
Balances at December 31, 2014	175,610,978	17,561	94,328,182	(74,306,486)	(298,312)	19,740,945
Net loss	0	0	0	(6,576,416)	0	(6,576,416)
Exercise of stock options issued to employees	72,496	7	26,120	0	0	26,127
Shares issued to employees	429,110	43	129,938	0	0	129,981
Stock option expense	0	0	(64,932)	0	0	(64,932)
Balances at December 31, 2015	176,112,584	17,611	94,419,308	(80,882,902)	(298,312)	13,255,705
Net income	0	0	0	1,250,276	0	1,250,276
Other comprehensive income	0	0	0	0	109	109
Exercise of stock options issued to employees	77,500	8	(8)	0	0	0
Shares issued to employees	196,800	20	65,974	0	0	65,994
Stock option expense	0	0	(1,317,809)	0	0	(1,317,809)
Balances at December 31, 2016	176,386,884	17,639	93,167,465	(79,632,626)	(298,203)	13,254,275

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Cash flows from operating activities provided by/(used in):			
Net income/(loss)	1,250,276	(6,576,416)	(9,316,127)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	2,646,185	2,697,151	2,512,946
Share based payments expense	(1,317,809)	(64,932)	(627,868)
Loss on fixed assets disposal	1,280	329	16,195
Unrealized foreign exchange losses	(32,138)	953,010	718,336
Financing costs - amortization of warrants	220,180	218,988	181,779
Change in assets and liabilities:			
Inventory	(483,982)	42,182	(393,243)
Accounts receivable	(1,694,425)	646,121	(1,631,838)
Prepaid expenses and other assets	1,324,771	(1,028,500)	126,095
Deferred revenue	5,193,771	(394,358)	(348,270)
Employee entitlements	240,135	234,770	64,077
Accounts payable and accrued expenses	(299,574)	2,743,815	1,229,856
Net cash provided by/(used in) operating activities	7,048,670	(527,840)	(7,468,062)
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	0	0	7,941
Purchases of property, plant and equipment	(1,212,660)	(1,270,392)	(955,327)
Payments to acquire business	(59,500)	0	0
Net cash used in investing activities	(1,272,160)	(1,270,392)	(947,386)
Cash flows from financing activities:			
Proceeds from borrowings	369,630	360,510	1,051,662
Repayment of borrowings	(324,459)	(534,941)	(552,772)
Borrowing costs	0	(1,230,354)	(237,148)
Proceeds from stock options exercised	0	26,127	0
Net cash provided by/(used in) financing activities	45,171	(1,378,658)	261,742
Net increase/(decrease) in cash and cash equivalents	5,821,681	(3,176,890)	(8,153,706)
Cash and cash equivalent at beginning of period	14,350,307	16,329,829	23,742,422
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	230,334	1,197,368	741,113
Cash and cash equivalents at end of period	20,402,322	14,350,307	16,329,829

See accompanying notes to the financial statement

(1) Basis of Presentation

These consolidated financial statements are presented in accordance with "U.S. GAAP". All amounts are expressed in Australian dollars ("AUD" or "A$") unless otherwise stated.

The Company's consolidated financial statements have been prepared assuming the Company will continue as a going concern. We rely largely on our existing cash and cash equivalents balance and operating cash flow to provide for the working capital needs of our operations. We believe we have sufficient cash and cash equivalents to fund our operations for at least the next twelve months. However, in the event, our financing needs for the foreseeable future are not able to be met by our existing cash and cash equivalents balance and operating cash flow, we would seek to raise funds through public or private equity offerings, debt financings, and through other means to meet the financing requirements. There is no assurance that funding would be available at acceptable terms, if at all.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries, UBS and HRL. All intercompany balances and transactions have been eliminated on consolidation.

Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, deferred income taxes, asset retirement obligations and obligations related to employee benefits. Actual results could differ from those estimates.

Cash & Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. For cash and cash equivalents, the carrying amount approximates fair value due to the short maturity of those instruments.

Short-Term Investments (Held-to-maturity)

Short-term investments constitute all highly liquid investments with term to maturity from three months to twelve months. The carrying amount of short-term investments is equivalent to their fair value.

Concentration of Credit Risk and Other Risks and Uncertainties

Cash and cash equivalents and accounts receivable consist of financial instruments that potentially subject the Company to concentration of credit risk to the extent of the amount recorded on the consolidated balance sheets. The Company's cash and cash equivalents are primarily invested with one of Australia's largest banks. The Company is exposed to credit risk in the event of default by the banks holding the cash or cash equivalents to the extent of the amount recorded on the consolidated balance sheets. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company has not identified any collectability issues with respect to receivables.

Derivative Instruments and Hedging Activities

Derivative financial instruments

The Company may use derivative financial instruments to hedge its exposure to foreign exchange arising from operating, investing and financing activities. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognized immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

Exposure to foreign exchange risks arises in the normal course of the Company's business and it is the Company's policy to use forward exchange contracts to hedge anticipated sales and purchases in foreign currencies. The amount of forward cover taken is in accordance with approved policy and internal forecasts.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction, the effective part of any unrealized gain or loss on the derivative financial instrument is recognized directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

For cash flow hedges, other than those covered by the preceding statement, the associated cumulative gain or loss is removed from equity and recognized in the consolidated statements of comprehensive income in the same period or periods during which the hedged forecast transaction affects the consolidated statements of comprehensive income and on the same line item as that hedged forecast transaction. The ineffective part of any gain or loss is recognized immediately in the consolidated statements of comprehensive income.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship but the hedged forecast transaction is still probable to occur, the cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealized gain or loss recognized in equity is recognized immediately in the consolidated statements of comprehensive income.

Derivative Instruments and Hedging Activities

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. For years ended December 31, 2014, 2015 and 2016, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives are based on the market approach using observable market inputs, such as forward rates and incorporate non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2. The fair value methodologies described as Level 2 and 3 inputs are defined elsewhere in these notes to the consolidated financial statements.

Inventory

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to dispose. Inventories are principally determined under the average cost method which approximates cost. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost also includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs of purchased inventory are determined after deducting rebates and discounts.

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Raw materials	315,970	270,683	351,007
Work in progress	523,280	52,841	46,443
Finished goods	0	31,744	0
	839,250	355,268	397,450

Receivables

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the best estimate of the amount of probable credit losses in the existing accounts receivable. The allowance is determined based on a review of individual accounts for collectability, generally focusing on those accounts that are past due. The current year expense to adjust the allowance for doubtful accounts, if any, is recorded within general and administrative expenses in the consolidated statements of comprehensive income. Account balances are charged against the allowance when it is probable the receivable will not be recovered.

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Accounts receivable	4,848,009	3,153,584	3,799,705
Allowance for doubtful debts	0	0	0
	4,848,009	3,153,584	3,799,705

Property, Plant, and Equipment, net

Property, plant, and equipment are recorded at acquisition cost, less accumulated depreciation.

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful life of machinery and equipment is 3 to 10 years. Leasehold improvements are amortized on the straight-line method over the shorter of the remaining lease term or estimated useful life of the asset. Maintenance and repairs are charged to operations as incurred, include normal services, and do not include items of a capital nature.

The Company receives Commonwealth of Australia grant monies under grant agreements to support its development activities, including in connection with the purchase of plant and equipment. Plant and equipment is presented net of the government grant. The grant monies are recognized against the acquisition costs of the related plant and equipment as and when the related assets are purchased.

Research and Development

Research and development expenses consist of costs incurred to further the Group's research and product development activities and include salaries and related employee benefits, costs associated with clinical trial and preclinical development, regulatory activities, research-related overhead expenses, costs associated with the manufacture of clinical trial material, costs associated with developing a commercial manufacturing process, costs for consultants and related contract research, facility costs and depreciation. Research and development costs are expensed as incurred.

Research and development expenses for the respective periods are as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Research	1,230,652	1,296,396	1,194,323
Development	14,636,810	18,467,446	15,941,728
Research and development expenses	15,867,462	19,763,842	17,136,051

Income Taxes

The Company applies ASC 740 - Income Taxes which establishes financial accounting and reporting standards for the effects of income taxes that result from a company's activities during the current and preceding years. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered

or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Where it is more likely than not that some portion or all of the deferred tax assets will not be realized, the deferred tax assets are reduced by a valuation allowance. The valuation allowance is sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized. A reconciliation of the valuation and qualifying accounts is attached as Schedule ii.

We are subject to income taxes in the United States, Canada and Australia. U.S. federal income tax returns up to and including the 2015 financial year have been filed. In Australia, consolidated income tax returns up to and including the 2015 financial year have been filed. HRL will file its first tax return in Canada for the 2016 financial year.

Asset Retirement Obligations

Asset retirement obligations ("ARO") are legal obligations associated with the retirement and removal of long-lived assets. ASC 410 – Asset Retirement and Environmental Obligations requires entities to record the fair value of a liability for an asset retirement obligation when it is incurred. When the liability is initially recorded, the Company capitalizes the cost by increasing the carrying amounts of the related property, plant and equipment. Over time, the liability increases for the change in its present value, while the capitalized cost depreciates over the useful life of the asset. The Company derecognizes ARO liabilities when the related obligations are settled.

The ARO is in relation to our premises where in accordance with the terms of the lease, the lessee has to restore part of the building upon vacating the premises.

Our overall ARO changed as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
	A$	**A$**	**A$**
Opening balance at January 1	2,600,000	2,600,000	2,549,928
Accretion expense	0	0	50,072
Ending balance at December 31	2,600,000	2,600,000	2,600,000

Fair Value of Financial Instruments

The carrying value of all current assets and current liabilities approximates fair value because of their short-term nature. The estimated fair value of all other amounts has been determined, depending on the nature and complexity of the assets or the liability, by using one or all of the following approaches:

- Market approach – based on market prices and other information from market transactions involving identical or comparable assets or liabilities.
- Cost approach – based on the cost to acquire or construct comparable assets less an allowance for functional and/or economic obsolescence.
- Income approach – based on the present value of a future stream of net cash flows

These fair value methodologies depend on the following types of inputs:

- Quoted prices for identical assets or liabilities in active markets (Level 1 inputs)
- Quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active or are directly or indirectly observable (Level 2 inputs)
- Unobservable inputs that reflect estimates and assumptions (Level 3 inputs)

Impairment of Long-Lived Assets

The Company reviews its capital assets, including patents and licenses, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. In performing the review, the Company estimates undiscounted cash flows from products under development that are covered by these patents and licenses. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset. If the evaluation indicates that the carrying value of an asset is not recoverable from its undiscounted cash flows, an impairment loss is measured by comparing the carrying value of the asset to its fair value, based on discounted cash flows.

Australian Goods and Services Tax (GST) and Canadian Harmonized Sales Tax (HST)

Revenues, expenses and assets are recognized net of the amount of associated GST and HST, unless the GST and HST incurred is not recoverable from the taxation authority. In this case it is recognized as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST and HST receivable or payable. The net amount of GST and HST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheets.

Revenue Recognition

We recognize revenue from all sources based on the provisions of the U.S. SEC's Staff Accounting Bulletin No. 104 and ASC 605 Revenue Recognition.

The Company's revenue represents revenue from sales of products, provision of services and collaborative research and development agreements.

We recognize revenue from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership, assuming all other revenue recognition criteria have been met. Generally, this is at the time products are shipped to the customer.

Revenue from services is recognized when a persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Revenue recognition principles are assessed for each new contractual arrangement and the appropriate accounting is determined for each service.

Where our agreements contain multiple elements, or deliverables, such as the manufacture and sale of products, provision of services or research and development activities, they are assessed to determine whether separate delivery of the individual elements of such arrangements comprises more than one unit of accounting. Where an arrangement can be divided into separate units of accounting (each unit constituting a separate earnings process), the arrangement consideration is allocated amongst those varying units based on the relative selling price of the separate units of accounting and the applicable revenue recognition criteria applied to the separate units. Selling prices are determined using fair value as determined by either vendor specific objective evidence or third party evidence of the selling price, when available, or the Company's best estimate of selling price when fair value is not available for a given unit of accounting.

Under ASC 605-25, the delivered item(s) are separate units of accounting, provided (i) the delivered item(s) have value to a customer on a stand-alone basis, and (ii) if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in our control. Where the arrangement cannot be divided into separate units, the individual deliverables are combined as a single unit of accounting and the total arrangement consideration is recognized across other deliverables in the arrangement or over the estimated collaboration period. Payments under these arrangements typically include one or more of the following: non-refundable, upfront payments; funding of research and/or development efforts; and milestone payments.

We typically generate milestone payments from our customers pursuant to the various agreements we have with them. Non-refundable milestone payments which represent the achievement of a significant technical/regulatory hurdle in the research and development process pursuant to collaborative agreements, and are deemed to be substantive, are recognized as revenue upon the achievement of the specified milestone. If the non-refundable milestone payment is not substantive or stand-alone value, the non-refundable milestone payment is deferred and

recognized as revenue either over the estimated performance period stipulated in the agreement or across other deliverables in the arrangement.

Management has concluded that the core operations of the Company are expected to be the research and development activities, commercial manufacture of approved medical or testing devices and the provision of services. The Company's ultimate goal is to utilize the underlying technology and skill base for the development of marketable products that the Company will manufacture. The Company considers revenue from the sales of products, revenue from services and the income received from milestone payments indicative of its core operating activities or revenue producing goals of the Company, and as such have accounted for this income as "revenues".

Master Services and Supply Agreement

In October 2007, the Company and LifeScan entered into a Master Services and Supply Agreement, under which the Company would provide certain services to LifeScan in the field of blood glucose monitoring and act as a non-exclusive manufacturer of blood glucose test strips. The Master Services and Supply Agreement was subsequently amended and restated in May 2009. The Company has concluded the Master Services and Supply Agreement should be accounted for as three separate units of accounting: 1) research and development to assist LifeScan in receiving regulatory clearance to sell the blood glucose product (milestone payment), 2) contract manufacturing of the blood glucose test strips (contract manufacturing) which ceased in December 2013, and 3) ongoing services and efforts to enhance the product (product enhancement).

All consideration within the Master Services and Supply Agreement is contingent. The Company concluded the undelivered items were not priced at a significant incremental discount to the delivered items and revenue for each deliverable will be recognized as each contingency is met and the consideration becomes fixed and determinable. The milestone payment was considered to be a substantive payment and the entire amount has been recognized as revenue when the regulatory approval was received. Revenues for contract manufacturing and ongoing efforts to enhance the product are recognized as revenue from products or revenue from services, respectively, when the four basic criteria for revenue recognition are met.

Collaboration Agreement

On September 9, 2011 the Company entered into a Collaboration Agreement with Siemens to develop coagulation related products for hospital point-of-care and ambulatory care coagulation markets. In addition to an up-front, non-refundable payment of A$2,961,245 (equivalent to US$3 million), the Collaboration Agreement (as amended) contains a further seven payments from Siemens upon the achievement of certain defined milestones. These seven milestones to a large extent relate to feasibility, regulatory submissions and the launch of the products to be developed. The Company has concluded that the up-front payment is not a separate unit of accounting and recorded the amount as deferred revenue to be recognized as revenue across other deliverables in the arrangement with Siemens based upon the Company's best estimate of selling price. The deliverables related to each milestone are considered substantive and are not priced at a significant incremental discount to the other deliverables. As the achievement of the milestones is contingent upon a future event, the revenue for each deliverable will be recognized as the contingencies are met and the consideration becomes fixed and determinable.

Of the seven milestones, the Company has delivered on four as of December 31, 2016. Two milestones were delivered in 2012 and the milestones achieved subsequent to January 1, 2014 are as follows:

- In December 2014, the Company delivered on its third milestone when it completed the development of the Xprecia Stride™ Coagulation Analyzer and the product was launched by Siemens. Of the total amount of A$1,750,486 (equivalent to US$1,428,571) recognized as revenue from services in December 2014, A$1,225,340 (equivalent to US$1,000,000) relates to the achievement of the milestone whilst the balance relates to a portion of the deferred US$3 million up-front payment allocated to these milestones.

- In July 2015, the Company delivered on its fourth milestone when Siemens made a premarket 510(k) submission to the FDA for regulatory clearance to sell the Xprecia Stride™ Coagulation Analyzer in the US. Of the total amount of A$1,955,340 (equivalent to US$1,428,571) recognized as revenue from services in July 2015, A$1,368,738 (equivalent to US$1,000,000) relates to the achievement of the milestone whilst the balance relates to a portion of the deferred US$3 million up-front payment allocated to these milestones.

Interest income

Interest income is recognized as it accrues, taking into account the effective yield on the cash and cash equivalents.

Research and development tax incentive income

Research and development tax incentive income is recognized when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured. The research and development tax incentive is one of the key elements of the Australian Government's support for Australia's innovation system and is supported by legislative law primarily in the form of the Australian Income Tax Assessment Act 1997 as long as eligibility criteria are met. Generally speaking, entities which are an R&D entity involved in eligible R&D activities may claim research and development tax incentive income as follows:

1. as a refundable tax offset if aggregate turnover (which generally means an entity's total income that it derives in the ordinary course of carrying on a business, subject to certain exclusions) of the entity is less than A$20 million, or

2. as a non-refundable tax offset if aggregate turnover of the entity is more than A$20 million.

In accordance with SEC Regulation S-X Article 5-03, the Company's research and development incentive income has been recognized as non-operating income as it is not indicative of the core operating activities or revenue producing goals of the Company.

Management has assessed the Company's research and development activities and expenditures to determine which activities and expenditures are likely to be eligible under the tax incentive regime described above. At each period end management estimates the refundable tax offset available to the Company based on available information at the time. This estimate is also reviewed by external tax advisors on an annual basis.

The Company has recorded research and development tax incentive income of A$7,562,172, A$9,224,349 and A$9,935,083, respectively under the caption "Other" in the consolidated statements of comprehensive income in each of the years ended December 31, 2016, 2015 and 2014, respectively.

Of the A$9,935,083 research and development tax incentive recorded in other income for the year ended December 31, 2014, A$1,735,083 relates to research and development tax incentive income the Company received from the Australian Government for the year ended December 31, 2013 following a change in the original estimate. Similarly, included in the 2015 and 2016 research and development tax incentive income are amounts of A$24,349 and A$162,172, respectively which relates to prior years change in estimate of the research and development tax incentive income.

Foreign Currency

Functional and reporting currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of UBI and UBS is AUD or A$ for all years presented. The functional currency of HRL is Canadian dollars ("CAD$").

The consolidated financial statements are presented using a reporting currency of Australian dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income.

The Company has recorded foreign currency transaction gains/(losses) of A$112,075, (A$959,343) and (A$918,479) in each of the years ended December 31, 2016, 2015 and 2014, respectively.

The results and financial position of all the Group entities that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

- assets and liabilities for each balance sheet item reported are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement item reported are translated at average exchange rates (unless this is not a reasonable approximation of the effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to the Accumulated Other Comprehensive Income.

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. These were nil as at December 31, 2016.

Patent and License Costs

Legal and maintenance fees incurred for patent application costs have been charged to expense and reported in research and development expense.

Clinical Trial Expenses

Clinical trial costs are a component of research and development expenses. These expenses include fees paid to participating hospitals and other service providers, which conduct certain testing activities on behalf of the Company. Depending on the timing of payments to the service providers and the level of service provided, the Company records prepaid or accrued expenses relating to these costs.

These prepaid or accrued expenses are based on estimates of the work performed under service agreements.

Leased Assets

All of the Company's leases for the years ended December 31, 2016, 2015 and 2014 are considered operating leases. The costs of operating leases are charged to the consolidated statements of comprehensive income on a straight-line basis over the lease term.

Stock-based Compensation

We measure stock-based compensation at grant date, based on the estimated fair value of the award, and recognize the cost as an expense on a straight-line basis over the vesting period of the award. We estimate the fair value of stock options using the Trinomial Lattice model. We also grant our employees Restricted Stock Units ("RSUs") and ZEPOs. RSUs are stock awards granted to employees that entitle the holder to shares of common stock as the award vests. ZEPOs are stock options granted to employees that entitle the holder to shares of common stock as the award vests. The value of RSUs are determined and fixed on the grant date based on the Company's stock price. The exercise price of ZEPOs is nil. See note 5 for further details.

We record deferred tax assets for awards that will result in deductions on our income tax returns, based on the amount of compensation cost recognized and our statutory tax rate in the jurisdiction in which we will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported in our income tax return are recorded in expense or in capital in excess of par value if the tax deduction exceeds the deferred tax assets or to the extent that previously recognized credits to paid-in-capital are still available if the tax deduction is less than the deferred tax asset.

Employee Benefit Costs

UBS contributes to standard defined contribution superannuation funds on behalf of all its UBS employees. This contribution amount, formerly equal to 9.25% of each employee's salary, was increased by law to 9.50% from July 1, 2014 of each such employee's salary. Superannuation is a compulsory savings program whereby employers are required to pay a portion of an employee's remuneration to an approved superannuation fund that the employee is typically not able to access until they have reached the statutory requirement age. Whilst the Company has a third party default superannuation fund, it permits UBS employees to choose an approved and registered superannuation fund into which the contributions are paid. Contributions are charged to the consolidated statements of comprehensive income as they become payable.

Registered Retirement Savings Plan and Deferred Sharing Profit Plan

The Company provides eligible HRL employees a retirement plan through Sun Life Assurance Company of Canada. The retirement plan includes a Registered Retirement Savings Plan ("RRSP") and Deferred Profit Sharing Plan ("DPSP"). The RRSP is voluntary and the employee contributions are matched by the Company up to a maximum of 5% based on their continuous years of service and placed into the DPSP. The Company contributes 1% to 2% of the employee's base earnings towards the DPSP. The DPSP contributions are vested immediately.

Benefit Plan

The Company provides eligible HRL employees through Sun Life Assurance Company of Canada a Benefit Plan to its employees. In general, the Benefit Plan includes extended health care, dental care, basic life insurance, basic accidental death and dismemberment, and disability insurance.

Net Income/(Loss per) Share and Anti-dilutive Securities

Basic and diluted net income/(loss) per share is presented in conformity with ASC 260 – Earnings per Share. Basic net income/(loss) per share has been computed using the weighted-average number of common shares outstanding during the period. Diluted net income/(loss) per share is calculated by adjusting the basic net income/(loss) per share by assuming all dilutive potential ordinary shares are converted.

Total Comprehensive Income

The Company follows ASC 220 – Comprehensive Income. Comprehensive income is defined as the total change in shareholders' equity during the period other than from transactions with shareholders, and for the Company, includes net income.

The tax effect allocated to each component of other comprehensive income is as follows:

	Before-Tax Amount A$	Tax (Expense)/ Benefit A$	Net-of-Tax Amount A$
2016			
Foreign currency translation reserve	109	0	109
Reclassification for gains realised in net income	0	0	0
Other comprehensive gain	109	0	109
2015			
Unrealized loss on derivative instruments	0	0	0
Reclassification for gains realised in net income	0	0	0
Other comprehensive gain	0	0	0
2014			
Unrealized loss on derivative instruments	0	0	0
Reclassification for gains realised in net income	0	0	0
Other comprehensive gain	0	0	0

Business combinations

Business combinations are accounted for using the acquisition method of accounting. Acquisition cost is measured as the aggregate of the fair value at the date of acquisition of the assets given, equity instruments issued or liabilities incurred or assumed. Acquisition related costs are expensed as incurred (except for those costs arising on the issue of equity instruments which are recognised directly in equity). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Goodwill is measured as the excess of the acquisition cost, the amount of any non-controlling interest and the fair value of any previous UBI equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

Recent Accounting Pronouncements

On May 28, 2014, the FASB issued ASU 2014-09 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In applying the revenue model to contracts within its scope, an entity will:

- Identify the contract(s) with a customer (step 1).
- Identify the performance obligations in the contract (step 2).
- Determine the transaction price (step 3).
- Allocate the transaction price to the performance obligations in the contract (step 4).
- Recognize revenue when (or as) the entity satisfies a performance obligation (step 5).

The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities (e.g., sales of (1) property, plant, and equipment; (2) real estate; or (3) intangible assets). Existing accounting guidance applicable to these transfers (e.g., ASC 360-20) has been amended or superseded.

Compared with current U.S. GAAP, the ASU also requires significantly expanded disclosures about revenue recognition.

The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016, for public entities. Early application is not permitted (however, early adoption is optional for entities reporting under IFRSs).

Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU:

- Full retrospective application — Retrospective application would take into account the requirements in ASC 250 (with certain practical expedients).
- Modified retrospective application — Under the modified approach, an entity recognizes "the cumulative effect of initially applying the ASU as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application" (revenue in periods presented in the financial statements before that date is reported under guidance in effect before the change). Using this approach, an entity applies the guidance in the ASU to existing contracts (those for which the entity has remaining performance obligations) as of, and new contracts after, the date of initial application. The ASU is not applied to contracts that were completed before the effective date (i.e., an entity has no remaining performance obligations to fulfil). Entities that elect the modified approach must disclose an explanation of the impact of adopting the ASU, including the financial statement line items and respective amounts directly affected by the standard's application.

On May 9, 2016, the FASB issued ASU 2016-12 which amends certain aspects on the Board's new revenue standard, ASU 2014-09. The amendments include further clarifications on collectability, presentation of sales tax and other similar taxes collected from customers, non-cash consideration, contract modifications and completed contracts at transaction and transition technical correction.

On May 3, 2016, the FASB issued ASU 2016-11 which rescinds certain SEC guidance from the FASB Accounting Standards Codification in response to announcements made by the SEC at the EITF's March 3, 2016 meeting.

The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements.

On August 12, 2015 the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 by one year. For public entities, the standard will be effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption will be permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods).

On January 9, 2015, the FASB issued ASU 2015-01 to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the ASU, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. ASU 2015-01 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. Entities may apply the guidance prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted if the guidance is applied as of the beginning of the annual period of adoption. This guidance was adopted in 2015. The adoption of this guidance has not had a material impact on the Company's financial statements.

On April 7, 2015, the FASB issued ASU 2015-03 as part of its simplification initiative. The ASU changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. For public business entities, the guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities should apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period should be adjusted). The adoption of this guidance has not had a material impact on the Company's financial statements.

On July 22, 2015, the FASB issued ASU 2015-11, which requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures, one of which is net realizable value). The ASU does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. For public business entities, the ASU is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. The Company has adopted this guidance and it has not had a material impact on the Company's financial statements.

On November 20, 2015, the FASB issued ASU 2015-17 as part of its simplification initiative (i.e., FASB's effort to reduce the cost and complexity of certain aspects of U.S. GAAP). The ASU requires entities to present deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as non-current in a classified balance sheet. It thus simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current or non-current in a classified balance sheet. Netting of DTAs and DTLs by tax jurisdiction is still required under the new guidance. For public business entities, the ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. This guidance was adopted in 2015. The adoption of this guidance has not had a material impact on the Company's financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, its new standard on accounting for leases. ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606, the FASB's new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, the ASU addresses other concerns related to the current leases model. For example, the ASU eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. The standard also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure.

The new guidance will be effective for public business entities for annual periods beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on the Company's consolidated financial statements.

On March 17, 2016, the FASB issued ASU 2016-08, which amends the principal-versus agent implementation guidance and illustrations in the Board's new revenue standard (ASU 2014-09). The FASB issued the ASU in response to concerns identified by stakeholders, including those related to (1) determining the appropriate unit of account under the revenue standard's principal-versus-agent guidance and (2) applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard's control principle.

Among other things, the ASU clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. As defined in the ASU, a specified good or service is "a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer." Therefore, for contracts involving more than one specified good or service, the entity may be the principal for one or more specified goods or services and the agent for others.

The ASU has the same effective date as the new revenue standard (as amended by the one-year deferral and the early adoption provisions in ASU 2015-14). In addition, entities are required to adopt the ASU by using the same transition method they used to adopt the new revenue standard. The Company is currently evaluating the impact the adoption of ASU 2016-08 will have on the Company's consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and non-public entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. For Public Business Entities, the ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. For all other entities, the ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual reporting periods beginning after December 15, 2018. The adoption of this guidance has not had a material impact on the Company's financial statements.

On August 26, 2016, the FASB issued ASU 2016-15, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues:

- Debt prepayment or debt extinguishment costs.
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.
- Contingent consideration payments made after a business combination.
- Proceeds from the settlement of insurance claims.
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies.
- Distributions received from equity method investees.
- Beneficial interests in securitization transactions.
- Separately identifiable cash flows and application of the predominance principle.

For public business entities, the guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. The Company has adopted this guidance and it has not had a material impact on the Company's financial statements.

On November 17, 2016, the FASB issued ASU 2016-18, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods therein. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted for all entities. The Company is currently evaluating the impact the adoption of ASU 2016-18 will have on the Company's consolidated financial statements.

(3) Commitments and Contingent Liabilities

For details on our contingent liabilities, see Notes to Consolidated Financial Statements – *Note 2, Summary of Significant Accounting Policies.*

Operating Leases

The lease for 1 Corporate Avenue, Rowville Victoria expires on March 31, 2019, with two options to renew the lease each for successive five-year periods. The Company's primary bank has issued a bank guarantee of A$250,000 in relation to a rental bond to secure the payments under the lease. This bank guarantee is secured by a security deposit held at the bank and has been recorded as "Other non-current assets" in consolidated balance sheets.

In accordance with the terms of the lease, the lessee has to restore part of the building upon vacating the premises.

HRL leases approximately 482 square meters of office and laboratory facilities at 15(H) Wing, Second Floor, 711 Concession Street, Hamilton, Ontario. The lease for 711 Concession Street expires on January 31, 2020 with 2 further options to renew each for 5 years.

The Company has also entered into a lease with respect to certain office equipment. The lease is for a period of 60 months which commenced in November 2012.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2016 are:

	A$
Less than 1 year	693,462
1 – 3 years	960,463
3 – 5 years	7,573
More than 5 years	0
Total minimum lease payments	1,661,498

Rent expense was A$626,437, A$647,104 and A$551,119 for the fiscal years ended December 31, 2016, 2015 and 2014, respectively.

Guarantees

There are cross guarantees given by Universal Biosensors, Inc. and Universal Biosensors Pty Ltd as described in note 15. No deficiencies of assets exist in any of these companies. No liability was recognized by the parent entity or the consolidated entity in relation to this guarantee, as the fair value of the guarantees is immaterial.

Government grants

UBS was awarded a grant from the Commonwealth of Australia under the Next Generation Manufacturing Investment Programme up to a maximum grant amount of A$575,000 payable over a three year period commencing from January 1, 2017. The grants are paid upon achievement of pre-agreed milestones. Amongst other reasons, the Commonwealth of Australia may terminate the grant agreement for breach of the agreement by UBS or for failure to undertake the required programme. Under these circumstances, the Commonwealth of Australia may require UBS to repay some or the entire grant. The Company continues to undertake the project funded by the Commonwealth of Australia.

No amounts have been received under this grant to date. In the event UBS had achieved milestones and received grant payments, it believes that the likelihood of being required to repay grant funding is remote because the Company continues to act in good faith with respect to the grant.

(4) Income Taxes

The Company is subject to income tax in Australia and is required to pay taxes on its Australian profits. As provided under the Australian income tax laws, UBI and its wholly owned resident subsidiary UBS have formed a

tax-consolidated group. UBI is required to lodge U.S. federal income tax returns and HRL is required to lodge tax returns in Canada. UBI and HRL are currently in a tax loss situation.

A reconciliation of the (benefit)/provision for income taxes with the amount computed by applying the Australian statutory company tax rate of 30% to the net income/(loss) before income taxes is as follows:

	Years ended December 31,					
	2016		2015		2014	
	A$	%	A$	%	A$	%
Net income/(loss) before income taxes	1,347,547		(6,576,416)		(9,316,127)	
Computed by applying income	404,264	30	(1,972,925)	30	(2,794,838)	30
Research & development incentive	2,664,682	197	3,560,728	(54)	2,502,701	(27)
Disallowed expenses/(income):						
Share based payment	(395,343)	(29)	(19,480)	0	(188,360)	2
Other	(12,460)	(1)	120,837	(2)	3,136	0
Change in valuation allowance	(2,661,143)	(197)	(1,689,160)	26	477,361	(5)
Income tax expense/(benefit)	0	0	0	0	0	0

The components of our net income/(loss) before income taxes as either domestic or foreign is as follows:

	As of December 31,		
	2016	2015	2014
	A$	A$	A$
Foreign	0	0	0
Domestic (Australia)	1,347,547	(6,576,416)	(9,316,127)
	1,347,547	(6,576,416)	(9,316,127)

Significant component of the Company's deferred tax assets are shown below:

	As of December 31,	
	2016 A$	2015 A$
Deferred tax assets:		
Operating loss carry forwards	6,784,868	9,527,727
Unamortized capital raising cost	0	38,395
Depreciation and amortization	1,372,387	1,270,986
Asset retirement obligations	780,000	780,000
Employee entitlements	493,406	442,712
Other	2,675,748	3,083,055
Total deferred tax assets	12,106,409	15,142,875
Valuation allowance for deferred tax assets	(12,106,409)	(15,142,875)
Net deferred tax asset	0	0

Significant components of deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes. A valuation allowance has been established, as realization of such assets is not more likely than not.

At December 31, 2016 the Company has A$22,616,230 (A$32,032,988 at December 31, 2015) of accumulated tax losses available for carry forward against future earnings, which under Australian tax laws do not expire but may not be available under certain circumstances. The Company also has A$5,800,672 of non-refundable R&D tax offset as at December 31, 2016 and 2015. The R&D Tax offset is a non-refundable tax offset, which assists to reduce a company's tax liability. Once the liability has been reduced to zero, any excess offset may be carried forward into future income years. UBI has US tax losses available for carry forward against future earnings of US$1,011,321 as of December 31, 2016 and 2015.

(5) Employee Incentive Schemes

(a) Stock Option Plan

In 2004, the Company adopted an employee option plan ("Plan"). Options may be granted pursuant to the Plan to any person considered by the board to be employed by the Group on a permanent basis (whether full time, part time or on a long term casual basis). Each option gives the holder the right to subscribe for one share of common stock. The total number of options that may be issued under the Plan is such maximum amount permitted by law and the Listing Rules of the Australian Securities Exchange ("ASX"). The exercise price and any exercise conditions are determined by the board at the time of grant of the options. Any exercise conditions must be satisfied before the options vest and become capable of exercise. The options lapse on such date determined by the board at the time of grant or earlier in accordance with the Plan. Options granted to date have had a term up to 10 years and generally vest in equal tranches over three years.

An option holder is not permitted to participate in a bonus issue or new issue of securities in respect of an option held prior to the issue of shares to the option holder pursuant to the exercise of an option. If the Company changes the number of issued shares through or as a result of any consolidation, subdivision, or similar reconstruction of the issued capital of the Company, the total number of options and the exercise price of the options (as applicable) will likewise be adjusted. Options granted in 2014, 2015 and 2016 were 152,000, 1,015,000, and 9,291,000, respectively.

In accordance with ASC 718, the fair value of the option grants was estimated on the date of each grant using the Trinomial Lattice model. The assumptions for these grants were:

	Dec-16	Apr-16	Dec-15	Jan-15	Jan-15	Aug-14
Exercise Price (A$)	0.33	0.50	0.45	0.00	0.23	0.17
Share Price at Grant Date (A$)	0.33	0.29	0.45	0.23	0.23	0.17
Volatility	69%	70%	70%	72%	72%	71%
Expected Life (years)	7	7	7	7	7	7
Risk Free Interest Rate	2.60%	2.23%	2.56%	2.27%	2.27%	3.13%
Fair Value of Option (A$)	0.19	0.08	0.26	0.23	0.14	0.10

Each of the inputs to the Trinomial Lattice model is discussed below.

Share Price and Exercise Price at Valuation Date

With the exception of ZEPOs, the value of all other options granted has been determined using the closing price of our common stock trading in the form of CDIs on ASX at the time of grant of the options. ZEPOs exercise price are nil. The ASX is the only exchange upon which our securities are quoted.

Volatility

We applied volatility having regard to the historical price change of our shares in the form of CDIs available from the ASX.

Time to Expiry

All options granted under our share option plan have a maximum 10 year term and are non-transferable.

Risk free rate

The risk free rate which we applied is equivalent to the yield on an Australian government bond with a time to expiry approximately equal to the expected time to expiry on the options being valued.

Stock option activity during the current period is as follows:

	Number of shares	Weighted average issue price A$
Balance at December 31, 2015	9,709,661	0.99
Granted	9,291,000	0.50
Exercised	(77,500)	0.00
Lapsed	(2,658,992)	1.25
Balance at December 31, 2016	16,264,169	0.67

At December 31, 2016, the number of options exercisable was 11,941,626 (2015: 8,662,448 and 2014: 8,611,392). At December 31, 2016, total stock compensation income recognized in the consolidated condensed statements of comprehensive income was A$1,317,809 (2015: A$64,932 and 2014: A$627,868).

The following table represents information relating to stock options outstanding under the plans as of December 31, 2016:

	Options Outstanding		Options Exercisable
Exercise Price A$	Shares	Weighted average remaining life in years	Shares
$1.18	529,000	0	529,000
$1.20	525,000	1	525,000
$0.89	645,000	1	645,000
$0.70	102,000	2	102,000
$0.50	8,000	2	8,000
$0.00	50,001	2	50,001
$0.00	388,334	2	388,334
$0.94	698,667	2	698,667
$1.72	1,095,000	3	1,095,000
$1.60	50,000	0	50,000
$1.58	216,000	1	216,000
$0.00	91,667	1	91,667
$1.37	213,000	1	213,000
$1.00	66,000	2	66,000
$0.89	222,500	2	222,500
$0.00	100,000	2	100,000
$0.75	50,000	2	50,000
$0.73	74,000	3	74,000
$1.09	270,000	3	270,000
$0.00	100,000	3	100,000
$0.79	24,000	3	24,000
$0.71	30,000	4	30,000
$0.49	290,000	4	290,000
$0.00	160,000	4	160,000
$0.17	80,000	5	53,333
$0.23	352,500	5	234,970
$0.00	160,000	5	106,664
$0.45	382,500	6	127,490
$0.50	9,035,000	6	5,421,000
$0.33	256,000	7	0
	16,264,169		11,941,626

The table below sets forth the number of employee stock options exercised and the number of shares issued in the period from December 31, 2014. We issued these shares in reliance upon exemptions from registration under Regulation S under the Securities Act of 1933, as amended.

Period Ending	Number of Options Exercised and Corresponding Number of Shares Issued	Weighted Average Exercise Price	Proceeds Received (A$)
2014	8,333	A$0.00	0
2015	72,496	US$ 0.26	26,127
2016	77,500	0.00	0

As of December 31, 2016, there was A$244,924 of unrecognized compensation expense related to unvested share-based compensation arrangements under the Employee Option Plan. This expense is expected to be recognized as follows:

Fiscal Year	A$
2017	166,139
2018	73,396
2019	5,389
	244,924

The aggregate intrinsic value for all options outstanding as at December 31, 2016 was zero.

(b) Restricted Share Plan

Our Employee Share Plan was adopted by the Board of Directors in 2009. The Employee Share Plan permits our Board to grant shares of our common stock to our employees and directors (although our Board has determined not to issue equity to non-executive directors). The number of shares able to be granted is limited to the amount permitted to be granted at law, the ASX Listing Rules and by the limits on our authorized share capital in our certificate of incorporation. All our employees are eligible for shares under the Employee Share Plan. The Company currently proposes to continue to issue A$1,000 worth of restricted shares of common stock to employees of the Company on a recurring basis, but no more frequently than annually. The restricted shares have the same terms of issue as our existing shares of common stock but are not able to be traded until the earlier of three years from the date on which the shares are issued or the date the relevant employee ceases to be an employee of the Company or any of its associated group of companies.

The table below sets forth the restricted shares issued by the Company since January 1, 2014:

	Number of Restricted Shares Issued	Market Value of Restricted Shares Issued (A$)
June, 2014	2,040	1,000
January, 2015	282,555	64,988
July, 2015	4,347	1,000
December, 2015	142,208	63,994
February, 2016	15,000	6,000
December, 2016	181,800	59,994

Restricted stock awards activity during the current period is as follows:

	Number of shares	Weighted average issue price (A$)
Balance at December 31, 2015	542,816	0.35
Granted	196,800	0.34
Release of restricted shares	(164,036)	0.44
Balance at December 31, 2016	575,580	0.31

(6) Related Party Transactions

Details of related party transactions material to the operations of the Group other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business, are set out below:

In September 2011, we entered into a non-exclusive license agreement with SpeeDx Pty Ltd ("SpeeDx") pursuant to which SpeeDx granted us a license to use its proprietary MNAzyme technology in the field of molecular diagnostics. Under the agreement we make milestone payments totaling A$500,000 to SpeeDx if certain specified targets are achieved, and royalty payments ranging from 5% to 15% of that portion of our sales and licensing revenues arising from SpeeDx technology or products incorporating SpeeDx technology.

The license agreement and the obligation to pay royalties continues until SpeeDx's patent rights have expired, lapsed, are found to be invalid or are rejected. The agreement will terminate by mutual agreement or by one party for breach or insolvency of the other. SpeeDx may also terminate the license agreement if the research and development on a first licensed product is not completed by UBS within 7 years (subject to certain exceptions), and UBS may terminate if it determines that it does not wish to proceed with further commercialization of SpeeDx's technology.

In August 2013, we entered into a consulting agreement with SpeeDx pursuant to which we provided certain services relating to the establishment and maintenance of a quality management system at SpeeDx. Consulting fees received under this agreement in 2014 were A$77,758. In addition, a success fee of A$50,000 was paid by SpeeDx in 2014 as the criteria for successful completion of the engagement was met.

Mr. Denver is a director of the Company and SpeeDx. Talu Ventures Pty Ltd, of which Mr. Jane is a director, is a fund manager of a fund which holds approximately 33% of the issued shares in SpeeDx. Mr. Jane resigned as a director of the Company in March 2015. Until September 27, 2013, PFM Cornerstone Limited held approximately 6% of our shares (PFM Cornerstone Limited no longer holds any of our shares), and until June 28, 2016, PFM Cornerstone Limited also held approximately 33% of the issued shares in SpeeDx. Messrs Denver and Hanley are directors of the Company and until June 28, 2016 were directors of PFM Cornerstone Limited. Mr. Hanley is now a director of Biotech Investment Holdings 1 Pty Ltd and Biotech Investment Holdings 2 Pty Ltd which each respectively own approximately 14% of the issued share capital of SpeeDx.

Mr. Coleman is a director of the Company and Executive Chairman of Viburnum Funds Pty Ltd. Viburnum Funds Pty Ltd, as an investment manager for its associated funds holds a beneficial interest and voting power over approximately 15.51% of our shares.

(7) Financial Instruments

Financial Assets

	Years Ended December 31,	
	2016	2015
	A$	A$
Financial assets:		
Cash and cash equivalents	20,402,322	14,350,307
Accounts receivables	4,848,009	3,153,584
Financial instruments	0	0
Total financial assets	25,250,331	17,503,891
Debt:		
Short term borrowings	369,630	324,459
Long term secured loan	20,286,827	19,868,560
Total debt	20,656,457	20,193,019
Net financial assets/(liabilities)	4,593,874	(2,689,128)

The carrying value of the cash and cash equivalents and the accounts receivable approximates fair value because of their short-term nature.

We regularly review all our financial assets for impairment. There were no impairments recognized in 2016, 2015 and 2014.

Derivative Instruments and Hedging Activities

We had no outstanding contracts as at December 31, 2016, 2015 and 2014, respectively. During the years ended December 31, 2016, 2015 and 2014, we recognized gains of nil. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the years ended December 31, 2016, 2015 and 2014. For further details, see Notes to Consolidated Financial Statements – Note 2, *Summary of Significant Accounting Policies.*

(8) Property, Plant and Equipment, net

	As of December, 31	
	2016	2015
	A$	A$
Plant and equipment	25,913,814	24,676,687
Leasehold improvements	8,952,420	8,943,645
Capital work in process	1,943,032	1,943,032
	36,809,266	35,563,364
Accumulated depreciation	(25,282,248)	(22,655,162)
Property, plant & equipment, net	11,527,018	12,908,202

Capital work in process relates to assets under construction and comprises primarily specialized manufacturing equipment. Legal right to the assets under construction rests with the Company. The amounts capitalized for capital work in process represent the percentage of expenditure that has been completed, and once the assets are placed into service, the Company begins depreciating the respective assets. The accumulated amortisation of capitalised leasehold improvements for the fiscal years ended December 31, 2016, 2015 and 2014 was A$7,958,666, A$7,517,590, and A$7,096,926, respectively.

From 2017 to 2019, the Company is entitled to receive Commonwealth of Australia grant monies under grant agreements to support its development activities, including in connection with the purchase of plant and equipment. Plant and equipment is presented net of the government grant of A$Nil for the year ended December 31, 2016. The grants are recognized against the acquisition costs of the related plant and equipment as and when the related assets are purchased. Grants received in advance of the relevant expenditure are treated as deferred income and included in Current Liabilities on the balance sheet as the Company does not control the monies until the relevant expenditure has been incurred. Grants due to the Company under research agreements are recorded as Currents Assets on the balance sheet.

Depreciation expense was A$2,646,185, A$2,697,151, and A$2,512,946, for the fiscal years ended December 31, 2016, 2015 and 2014, respectively.

(9) Accrued Expenses

Accrued expenses consist of the following:

	As of December, 31	
	2016	2015
	A$	A$
Legal, tax and accounting fees	715,251	559,017
Salary and related costs	56,234	670,154
Research and development materials	896,227	654,701
Other	117,422	21,852
	1,785,134	1,905,724

(10) Stockholders' Equity - Common Stock

Holders of common stock are generally entitled to one vote per share held on all matters submitted to a vote of the holders of common stock. At any meeting of the shareholders, the presence, in person or by proxy, of the majority of the outstanding stock entitled to vote shall constitute a quorum. Except where a greater percentage is

required by the Company's amended and restated certificate of incorporation or by-laws, the affirmative vote of the holders of a majority of the shares of common stock then represented at the meeting and entitled to vote at the meeting shall be sufficient to pass a resolution. Holders of common stock are not entitled to cumulative voting rights with respect to the election of directors, and the common stock does not have pre-emptive rights.

Trading in our shares of common stock on ASX is undertaken using CHESS Depositary Interests ("CDIs"). Each CDI represents beneficial ownership in one underlying share. Legal title to the shares underlying CDIs is held by CHESS Depositary Nominees Pty Ltd ("CDN"), a wholly owned subsidiary of ASX.

Holders of CDIs have the same economic benefits of holding the shares, such as dividends (if any), bonus issues or rights issues as though they were holders of the legal title. Holders of CDIs are not permitted to vote but are entitled to direct CDN how to vote. Subject to Delaware General Corporation Law, dividends may be declared by the Board and holders of common stock may be entitled to participate in such dividends from time to time.

(11) Net Income/(Loss) per Share

Basic net income/(loss) per ordinary share was computed by dividing the net income/(loss) applicable to common stock by the weighted-average number of common stock outstanding during the period. Warrants issued to the Lenders and options granted to employees under the Universal Biosensors Employee Option Plan are considered to be potential ordinary shares for the purpose of calculating diluted net income/(loss) per share.

	Years Ended December 31,		
	2016	2015	2014
Weighted average shares used as denominator in calculating:			
Basic net income/(loss) per share	176,189,052	175,881,165	175,608,634
Diluted net income/(loss) per share	177,373,769	175,881,165	175,608,634

(12) Guarantees and Indemnifications

The certificate of incorporation and amended and restated by-laws of the Company provide that the Company will indemnify officers and directors and former officers and directors in certain circumstances, including for expenses, judgments, fines and settlement amounts incurred by them in connection with their services as an officer or director of the Company or its subsidiaries, provided that such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Company, and, with respect to any criminal action or proceeding, the Company had reasonable cause to believe that such person's conduct was not unlawful.

In addition to the indemnities provided in the certificate of incorporation and amended and restated by-laws, the Company has entered into indemnification agreements with certain of its officers and each of its directors. Subject to the relevant limitations imposed by applicable law, the indemnification agreements, among other things:

- indemnify the relevant officers and directors for certain expenses, judgments, fines and settlement amounts incurred by them in connection with their services as an officer or director of the Company or its subsidiaries; and
- require the Company to make a good faith determination whether or not it is practicable to maintain liability insurance for officers and directors or to ensure the Company's performance of its indemnification obligations under the agreements.

The Company maintains directors' and officers' liability insurance providing for the indemnification of our directors and certain of our officers against certain liabilities incurred as a director or officer, including costs and expenses associated in defending legal proceedings. In accordance with the terms of the insurance policy and commercial practice, the amount of the premium is not disclosed.

No liability has arisen under these indemnities as of December 31, 2016.

(13) Segments

The Company operates in one segment. The principal activities of the Company are research and development, commercial manufacture of approved medical or testing devices and the provision of services including contract research work.

The Company operates predominantly in one geographical area, being Australia and continues to derive significant revenues from LifeScan.

The Company's material long-lived assets are all based in Australia.

(14) Deed of Cross Guarantee

Universal Biosensors, Inc. and its wholly owned subsidiary, Universal Biosensors Pty Ltd, are parties to a deed of cross guarantee under which each company guarantees the debts of the other. By entering into the deed, the wholly-owned entity has been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Universal Biosensors, Inc., they also represent the "Extended Closed Group".

The consolidated financial statements presented within this report comprise that of Universal Biosensors, Inc. and its wholly owned subsidiary, Universal Biosensors Pty Ltd. These two entities also represent the "Closed Group" and the "Extended Closed Group".

(15) Borrowings

Future maturities, interest and other payments under the Company's long term secured loan pursuant to the credit agreement (described below) as of December 31, 2016 is as follows:

	December 31, 2016		December 31, 2015	
	US$	A$	US$	A$
2016	0		1,761,375	
2017	1,756,563		1,756,563	
2018	16,694,000		16,694,000	
Thereafter	0		0	
Total minimum payments	18,450,563		20,211,938	
Less amount representing interest and other fees	(3,450,563)		(5,211,938)	
Gross balance of long term debt	15,000,000		15,000,000	
Less fair value of warrants recorded within loan (a)	(815,655)		(815,655)	
Plus interest accretion	495,203		331,625	
Total carrying value	14,679,548	20,286,827	14,515,970	19,868,560
Less current portion	0	0	0	0
Total carrying value, non-current portion	14,679,548	20,286,827	14,515,970	19,868,560

The carrying value of the borrowings approximates its fair value. The fair value is estimated by discounting future cash flows at the currently offered rates for borrowings of similar remaining maturities.

(a) The warrants issued in December 2013 had a fair value of US$815,655 as of December 31, 2016, and are included in long term debt carrying value.

Athyrium Credit Agreement

On December 19, 2013 ("Closing Date"), UBI and its wholly owned subsidiary, UBS (together UBI and UBS, the "Transaction Parties") entered into a credit agreement with Athyrium Opportunities Fund (A) LP ("Athyrium A"), as administrative agent (the "Administrative Agent") and as a lender, and Athyrium Opportunities Fund (B) LP ("Athyrium B") as a lender (Athyrium A and Athyrium B together with any other lenders party thereto from time to time, the "Lenders") for a secured term loan of up to US$25 million, which was amended on January 30, 2015 ("Credit Agreement"). Of this amount, US$15 million had been drawn at December 31, 2013, with a further US$10 million available to be drawn down on or before July 31, 2015 if UBS satisfied certain conditions precedent relating to product revenues.

Whilst UBS met the commercial conditions required under the Credit Agreement to draw down an additional US$10 million, it decided not to take up the additional debt funding.

The term loan has a maturity date of December 19, 2018 ("Maturity Date") and bears interest at 10.5% per annum payable in cash quarterly in arrears over the five year term, and as otherwise described in the Credit Agreement. A default interest rate of 13% per annum shall apply during the existence of a default under the Credit Agreement. Other than as summarized below, UBS is not required to make payments of principal for amounts outstanding under the term loan until maturity, December 19, 2018. The term loan under the Credit Agreement is secured by substantially all of UBI and UBS' assets. UBI (together with any future subsidiaries) guarantees all of UBS's obligations under the term loan.

Voluntary prepayments of the term loans are not permitted prior to the second anniversary of the Closing Date, except in the event of a change of control of a Transaction Party. After the second anniversary, UBS can make voluntary repayments in minimum principal amounts of US$2,500,000 together with interest, plus the premium described below. UBS must make mandatory prepayments in certain prescribed circumstances, including in the event of raising additional debt financing, a sale or transfer of assets other than in certain circumstances and in the event of other specified extraordinary receipts. Extraordinary receipts include cash received or paid other than in the ordinary course of business, such as tax refunds (other than GST and R&D tax rebates), LifeScan lump sum fee payments and Siemens termination fees. In such events, UBS must prepay to the Lenders 100% of the net cash proceeds received up to the outstanding principal amount of the loans drawn down, together with all accrued and unpaid interest thereon and all other obligations. In the event of any prepayment on or prior to the second anniversary of the Closing Date with respect to any obligations under the Credit Agreement, UBS must also pay a prepayment premium of 20% of the principal of such prepayment due and payable on the applicable date. In the event of any prepayment after the second anniversary of the Closing Date with respect to any obligations under the Credit Agreement, UBS must pay a prepayment premium commencing at 15% of the principal of such prepayment due and payable on the applicable date and reducing pro-rata on a monthly basis until the Maturity Date.

Unless the facility is otherwise terminated earlier pursuant to the terms of the Credit Agreement, UBS (as the borrower) is required to repay the outstanding principal amount of the loans drawn down, together with all accrued and unpaid interest thereon and all other obligations on Maturity Date.

UBS paid a non-refundable fee of US$625,000 to the Lenders on the Closing Date (being 2.5% of the aggregate credit facility) and a non-refundable fee of US$200,000 to the Lenders in connection with the January 2015 amendment to the Credit Agreement. A 2% commitment fee based on any available unused borrowing commitment was paid by UBS under the Credit Agreement until July 31, 2015. The Lenders are also entitled to receive 30% of the net proceeds of milestone payments paid under the Collaboration Agreement by and among UBS, UBI and Siemens, up to a maximum of US$600,000 in the aggregate of which US$300,000 was paid in February 2015 and the balance of US$300,000 was paid in August 2015 (upon receipt of two further milestone payments). UBS has also agreed to pay certain taxes arising in connection with the Credit Agreement and other Loan Documents, including withholding taxes. UBS has also agreed to pay certain reasonable out-of-pocket expenses incurred by the Lenders in connection with the loan documents including the January 2015 amendment, or as may be incurred in connection with the enforcement or protection of their rights.

The Credit Agreement also contains certain covenants, including among other things, covenants: (i) relating to the delivery of financial and other information and certificates, notices of defaults, litigation and other material events; payment of taxes and other obligations; maintenance of insurance; (ii) which limit or restrict the incurrence of liens; the making of investments; the incurrence of certain indebtedness; mergers, dispositions, liquidations, or consolidations and significant asset sales; restricted payments; transactions with affiliates other than on normal and arms-length terms; burdensome agreements; prepayment of other indebtedness; ownership of subsidiaries; and (iii) which require UBS to maintain unrestricted cash of not less than US$2,000,000 in a specified bank account at any time.

As further described below, pursuant to the Credit Agreement, UBI issued to the Lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI's common stock in the form of CDIs at a price of A$1.00 per share (the "Exercise Price"), which represents a 117% premium over the closing price of UBI's common stock on December 19, 2013. The warrants are immediately exercisable and have a term of seven years.

Other

In December 2015, UBS entered into an arrangement with Elantis Premium Funding Ltd to fund the Group's 2016 insurance premium. The total amount financed was A$360,510 at inception and the short-term borrowing was fully repaid in September 2016. Interest was charged at a fixed rate of 2.60% per annum. In December 2016, UBS

entered into an arrangement with Elantis Premium Funding Ltd to fund the Group's 2017 insurance premium. The total amount financed was A$369,630 at inception and the short-term borrowing will be fully repaid in September 2017. Interest is charged at a fixed rate of 2.60% per annum. The short-term borrowing is secured by the insurance premium refund.

(16) Warrants

Pursuant to the Credit Agreement, UBI issued to the Lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI's common stock in the form of CDIs at a price of A$1.00 per share (the "Exercise Price"), which represents a 117% premium over the closing price of UBI's common stock on December 19, 2013. The warrants are immediately exercisable and have a term of seven years.

The warrants may be exercised at any time until December 19, 2020, in whole or in part in minimum multiples of 500,000 shares of common stock. The holder of the warrants can pay the Exercise Price in cash or it has the right to pay all or a portion of the Exercise Price by making a cashless exercise, therefore reducing the number of shares of common stock the holder would otherwise be issued.

The warrant is subject to adjustments in the event of certain issuances by UBI, such as bonus issues, pro rata (rights) issues and reorganizations (e.g. consolidation, subdivision).

The Company assessed that the warrants are not liabilities within scope of ASC 480-10-25. The warrants are legally detachable from the loan and separately exercisable and as such meet the definition of a freestanding derivative instrument pursuant to ASC 815.

However, the scope exception in accordance with ASC 815-10-15-74 applies to warrants and it meets the requirements of ASC 815 that would be classified in stockholders' equity. Therefore, the warrants were initially accounted for within stockholders' equity, and subsequent changes in fair value will not be recorded. The fair value of the warrant was estimated using the Trinomial Lattice model.

The debt issuance costs were recorded as deferred issuance costs and are amortized as interest expense, using the effective interest method, over the term of the loan pursuant to ASC 835-30-35-2.

(17) Restricted Cash

Restricted cash maintained by the Company in the form of term deposits is as follows:

	Years Ended December 31,		
	2016	2015	2014
	A$	A$	A$
Financial covenant pursuant to the credit agreement	2,900,000	2,900,000	2,600,000
Collateral for facilities	320,000	320,000	320,000
	3,220,000	3,220,000	2,920,000

Financial covenant pursuant to the credit agreement and collateral for facilities is recorded under the caption "Other non-current assets" in the consolidated balance sheets.

Universal Biosensors, Inc.

Schedule ii – Valuation and Qualifying Accounts
(for the years ended December 31, 2014, 2015 and 2016)

	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at end of Period
	A$	A$	A$	A$	A$
Year ended December 31, 2014					
Deferred income tax valuation allowance	23,413,313	477,361	(6,854,223)	0	17,036,451
Year ended December 31, 2015					
Deferred income tax valuation allowance	17,036,451	(1,689,161)	(204,415)	0	15,142,874
Year ended December 31, 2016					
Deferred income tax valuation allowance	15,142,874	(2,661,144)	(375,321)	0	12,106,409