Universal Biosensors, Inc.
ARBN 121 559 993

1 Corporate Avenue
Rowville Victoria 3178
Australia

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Universal Biosensors

1 August 2013

UBI Reports 1HFY13 Financials with Quarterly Service Fees up 58% as strip sales rebound in June

- Quarterly Service Fees up 58% from $1 million in 1HFY12 to $1.6 million in 1HFY13
- June rebound in strip sales to 1Q levels following short term impact of meter recall by LifeScan
- Improved margins reduce net profit impact of 24% decline in manufacturing revenue
- Total revenue down 35% to $9.6 million, with no R&D program for LifeScan or milestone payments falling in the period
- Net loss after tax of $7.7 million as company prepares for new product launches

Universal Biosensors, Inc. (ASX:UBI) (**Company**) today released its financial results for the first half of 2013, reporting total revenues of $9.6 million and a net loss of $7.7 million.

Total revenues for the period declined 35% from $14.7 million in 1HFY2012. This is the result of a reduction in revenues from services and manufacturing activities, which were offset in part by an increase in Quarterly Service Fees. With costs relating to the development of the Siemens coagulation testing products peaking in the first quarter of FY2013, the Company reported a net loss after tax of $7.7 million with net cash outflows of $6.2 million for the first half of 2013.

Earlier this year the Company flagged that it expected strip sales to be impacted by the recall of LifeScan's OneTouch Verio devices. Consistent with this expectation, Q2 strip sales were down by 9% compared to the prior quarter. However, strip sales for the first half of FY2013 increased by 58% overall compared to the previous corresponding period.

The Company has been encouraged by a strong rebound in strip sales in June, which reached the record levels achieved in the first quarter of this financial year. The Company believes this rebound reflects progress in working through the product recall announced at the end of Q1 this year. UBI earns a service fee of around US1 cent for every test strip sold (irrespective of where it is manufactured) in addition to the product revenue it earns from the manufacture of strips.

Paul Wright, CEO of Universal Biosensors said: *"While the product recall did slow our momentum, the impact is likely to be short-term and it is encouraging to see that strip sales for the first half overall continue to indicate strong underlying growth."*

Revenue from products, based on strip manufacturing volumes, decreased by 24% to $7.2 million. This revenue was also impacted by LifeScan's product recall and a planned shift in manufacturing volumes towards LifeScan's own facility in Scotland. The impact was minimised through the achievement of higher manufacturing margins, as a result of better yields and lower costs.

As expected, the Company also reported a decrease in revenue from R&D services to $780,000 (down 82%). The Company is not currently undertaking any contract R&D program with LifeScan or any other

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third party, but received US$500,000 reimbursement for costs incurred in additional development work undertaken for Siemens. Universal Biosensors is collaborating with Siemens to develop a range of novel handheld analysers for the point-of-care coagulation testing market.

Research and development costs increased over the first half to $7.9 million, up 47% over the prior corresponding period but down by 23% to $3.4 million when compared to the previous quarter. These figures represent a peak in the Company's investment into coagulation product development as the Company prepares for these new product launches with Siemens and our entry into the growing home coagulation testing market.

General and administrative costs decreased by 9% over the six month period, a continuing trend as management remained focused on controlling non-essential expenditures.

FY2013 Half Year Financial Results Conference Call

The Company will be hosting an investor conference call to discuss FY2013 Half Year financial results on Thursday 1 August at 1.00pm AEST. The call will be hosted by Universal Biosensors Chief Executive Officer, Paul Wright.

Shareholders are invited to listen to a live stream presentation on the half yearly results at 1.00pm AEST via the following link: http://www.brrmedia.com/event/113243/ or dial into the numbers below.

Audio Access Code: 731436 - please provide this ID when joining the call.

Dial-in details:
Australian Participant Dial-in Number
Toll free: 1800 558 698

International Participant Dial-in Numbers
These numbers are toll free dial-in numbers for each country listed below

Hong Kong:	800 966 806
Singapore:	800 101 2785
United Kingdom:	0800 051 8245
United States:	1855 8811 339

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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.

Appendix 4D

Half Year report

Universal Biosensors, Inc.

ARBN 121 559 993

Results for announcement to the market

(All numbers in Australian Dollars unless stated otherwise)

1. Reporting periods

Financial year ended ('Current period')	Financial year ended ('Previous corresponding period)
June 30, 2013	June 30, 2012

2. Results for announcement to the market

					June 30, 2013	June 30, 2012
Revenues from ordinary activities	Down	35%	to	$9,579,427	$9,579,427	$14,719,377
Loss from ordinary activities after tax attributable to members	Up	125%	to	$7,683,444	$7,683,444	$3,410,958
Loss for the period attributable to members	Up	125%	to	$7,683,444	$7,683,444	$3,410,958

Other key results

	3 months ended June 30,			6 months ended June 30,		
	2013 ($'M)	**2012 ($'M)**	**Change**	**2013 ($'M)**	**2012 ($'M)**	**Change**
Revenue from products	3.5	4.7	Down 27%	7.2	9.5	Down 24%
Revenue from services (excluding Quarterly Service Fees)	0.5	3.2	Down 83%	0.8	4.2	Down 82%
Quarterly Service Fees	0.8	0.4	Up 115%	1.6	1.0	Up 58%
Total revenue	**4.8**	**8.3**	**Down 43%**	**9.6**	**14.7**	**Down 35%**
Cost of goods sold & services	3.8	4.6	Down 19%	7.6	9.7	Down 23%
Contribution from products & services	1.0	3.7	Down 72%	2.0	5.0	Down 59%
Research & development exp	3.4	3.1	Up 11%	7.9	5.4	Up 47%
General & administrative exp	1.5	1.6	Down 6%	2.8	3.1	Down 9%
Net loss after tax	**3.0**	**1.0**	**Up $2.0M**	**7.7**	**3.4**	**Up $4.3M**
Net decrease in cash	**2.8**	**1.0**	**Up $1.8M**	**6.2**	**0.4**	**Up $5.8M**

3. Net tangible asset backing

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	18 cents / share	20 cents / share

4. Controlled entities
N/A

5. Dividends
There were no dividends declared or paid during the period.

6. Dividend Reinvestment Plans
N/A

7. Associates and Joint Ventures
N/A

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

9. Review Report
The accounts have been subject to review. Please refer to the attached Form 10-Q for the review report.

pwc

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Universal Biosensors, Inc.

We have reviewed the accompanying consolidated condensed balance sheet of Universal Biosensors, Inc. and its subsidiary as of June 30, 2013, and the related consolidated condensed statements of comprehensive income for the three-month and six-month periods ended June 30, 2013, and June 30, 2012, the consolidated condensed statement of changes in stockholders' equity and comprehensive income for the six-month period ended June 30, 2013 and June 30,2012, and the consolidated condensed statement of cash flows for the six-month period ended June 30, 2013 and June 30, 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated condensed interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated condensed balance sheet as of December 31, 2012, and the related consolidated condensed statements of comprehensive income, the consolidated condensed statement of changes in stockholders' equity and comprehensive income and the consolidated condensed statement of cash flows for the year then ended (not presented herein), and in our report dated March 12, 2013, we expressed an unqualified opinion on those consolidated condensed financial statements. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of June 30, 2013, is fairly stated in all material respects in relation to the consolidated condensed balance sheet from which it has been derived.

PricewaterhouseCoopers
Sydney
1 August 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

Commission File Number: 000-52607

Universal Biosensors, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**98-0424072**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
Universal Biosensors, Inc. **1 Corporate Avenue,** **Rowville, 3178, Victoria** **Australia**	
(Address of principal executive offices)	**Not Applicable** **(Zip Code)**

Telephone: +61 3 9213 9000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☒

Non-Accelerated Filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 174,709,420 shares of Common Stock, U.S.$0.0001 par value, outstanding as of August 1, 2013.

UNIVERSAL BIOSENSORS, INC.

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Unless otherwise noted, references on this Form 10-Q to "Universal Biosensors", the "Company," "Group," "we," "our" or "us" means Universal Biosensors, Inc. a Delaware corporation and, when applicable, its wholly owned Australian operating subsidiary, Universal Biosensors Pty Ltd.

Universal Biosensors, Inc.

Item 1 Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)

	June 30, 2013 A$	December 31, 2012 A$
ASSETS		
Current assets:		
Cash and cash equivalents	18,095,399	23,649,417
Inventories, net	2,252,813	3,602,237
Accounts receivable	2,489,924	2,282,888
Prepayments	485,265	159,994
Other current assets	1,470,246	786,194
Total current assets	24,793,647	30,480,730
Non-current assets:		
Property, plant and equipment	33,737,099	33,693,036
Less accumulated depreciation	(16,693,649)	(15,426,916)
Property, plant and equipment – net	17,043,450	18,266,120
Other non-current assets	320,000	320,000
Total non-current assets	17,363,450	18,586,120
Total assets	42,157,097	49,066,850
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	1,417,830	2,516,303
Accrued expenses	2,625,831	1,959,869
Deferred revenue	829,038	829,038
Borrowings	383,735	0
Employee entitlements provision	1,261,123	1,006,806
Total current liabilities	6,517,557	6,312,016
Non-current liabilities:		
Asset retirement obligations	2,450,697	2,351,464
Employee entitlements provision	200,536	202,192
Deferred revenue	829,039	829,039
Total non-current liabilities	3,480,272	3,382,695
Total liabilities	9,997,829	9,694,711
Commitments and contingencies	0	0
Stockholders' equity:		
Preferred stock, US$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2013 (2012: nil)		
Common stock, US$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 174,709,420 shares in 2013 (2012: 173,959,863)	17,471	17,396
Additional paid-in capital	93,480,105	93,009,607
Accumulated deficit	(53,356,552)	(44,225,330)
Current year loss	(7,683,444)	(9,131,222)
Accumulated other comprehensive income	(298,312)	(298,312)
Total stockholders' equity	32,159,268	39,372,139
Total liabilities and stockholders' equity	42,157,097	49,066,850

See accompanying notes to the financial statements

Universal Biosensors, Inc.

Consolidated Condensed Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	A$	A$	A$	A$
Revenue				
Revenue from products	3,455,253	4,734,628	7,201,071	9,458,849
Revenue from services	1,315,200	3,583,018	2,378,356	5,260,528
Total revenue	4,770,453	8,317,646	9,579,427	14,719,377
Operating costs & expenses				
Cost of goods sold	3,206,717	4,447,610	6,920,431	9,316,187
Cost of services	554,388	204,177	632,013	429,979
Research and development	3,448,202	3,118,746	7,906,131	5,383,644
General and administrative	1,487,733	1,583,980	2,795,398	3,068,856
Total operating costs & expenses	8,697,040	9,354,513	18,253,973	18,198,666
Loss from operations	(3,926,587)	(1,036,867)	(8,674,546)	(3,479,289)
Other income/(expense)				
Interest income	136,057	120,512	293,359	244,680
Interest expense	(5,660)	(7,316)	(11,320)	(17,070)
Other	755,415	(85,112)	709,063	(159,279)
Total other income	885,812	28,084	991,102	68,331
Net loss before tax	(3,040,775)	(1,008,783)	(7,683,444)	(3,410,958)
Income tax benefit/(expense)	0	0	0	0
Net loss	(3,040,775)	(1,008,783)	(7,683,444)	(3,410,958)
Earnings per share				
Basic and diluted net loss per share	(0.02)	(0.01)	(0.04)	(0.02)
Other comprehensive loss, net of tax:				
Reclassification for gain/(loss) realized in net income	(12,527)	35,001	0	(83,339)
Other comprehensive gain/(loss)	(12,527)	35,001	0	(83,339)
Comprehensive loss	(3,053,302)	(973,782)	(7,683,444)	(3,494,297)

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Condensed Statements of Changes in Stockholders' Equity and Comprehensive Income (Unaudited)

	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, 2012	159,139,965	15,914	79,446,995	(44,225,330)	(214,973)	35,022,606
Net loss	0	0	0	(3,410,958)	0	(3,410,958)
Other comprehensive loss	0	0	0	0	(83,339)	(83,339)
Exercise of stock options issued to employees	62,241	6	13,812	0	0	13,818
Stock option expense	0	0	475,344	0	0	475,344
Balances at June 30, 2012	159,202,206	15,920	79,936,151	(47,636,288)	(298,312)	32,017,471
Balances at January 1, 2013	173,959,863	17,396	93,009,607	(53,356,552)	(298,312)	39,372,139
Net loss	0	0	0	(7,683,444)	0	(7,683,444)
Exercise of stock options issued to employees	748,640	74	175,997	0	0	176,071
Shares issued to employees	917	1	999	0	0	1,000
Stock option expense	0	0	293,502	0	0	293,502
Balances at June 30, 2013	174,709,420	17,471	93,480,105	(61,039,996)	(298,312)	32,159,268

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2013	2012
	A$	A$
Cash flows from operating activities:		
Net loss	(7,683,444)	(3,410,958)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and impairment of plant & equipment	1,283,183	1,339,331
Share based payments expense	293,502	475,344
Loss on fixed assets disposal	907	8,870
Exchange gain	(68,597)	0
Change in assets and liabilities:		
Inventory	1,349,424	1,213,678
Accounts receivable	(781,313)	1,672,792
Prepaid expenses and other current assets	(1,009,323)	(1,066,596)
Deferred revenue	0	(1,437,125)
Employee entitlements	252,661	206,964
Accounts payable and accrued expenses	(317,322)	640,861
Net cash used in operating activities	(6,680,322)	(356,839)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(74,968)	(420,562)
Net cash used in investing activities	(74,968)	(420,562)
Cash flows from financing activities:		
Proceeds from borrowings	767,471	921,725
Repayment of borrowings	(383,736)	(537,673)
Proceeds from stock options exercised	177,071	13,818
Net cash provided by financing activities	560,806	397,870
Net decrease in cash and cash equivalents	(6,194,484)	(379,531)
Cash and cash equivalent at beginning of period	23,649,417	15,089,209
Effect of exchange rate changes on cash	640,466	0
Cash and cash equivalents at end of period	18,095,399	14,709,678

See accompanying notes to the financial statement

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Organization of the Company

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.

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 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, Universal Biosensors Pty Ltd ("UBS") was incorporated as a proprietary limited company in Australia on September 21, 2001. UBS conducts our research, development and manufacturing activities in Melbourne, Australia.

We have rights to an extensive patent portfolio, with certain patents owned by UBS and a number licensed to UBS by LifeScan, Inc. ("LifeScan") and other third party licensees. 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 tests for a number of different markets. Our current focus is as set out below:

- Blood glucose – UBS provides services and acts as a non-exclusive manufacturer of test strips for LifeScan's "OneTouch® Verio®" blood glucose testing product, pursuant to a Master Services and Supply Agreement with LifeScan ("Master Services and Supply Agreement"). LifeScan continues its global rollout of the OneTouch® Verio® product, which is now available in countries that represent over 90% of the world self-monitoring blood glucose market including North America, major European markets, Japan and Australia. We also undertake research and development work for LifeScan pursuant to a development and research agreement ("Development and Research Agreement").
- Coagulation testing market – UBS is working with Siemens Healthcare Diagnostics, Inc. ("Siemens") to develop a range of products for the point-of-care coagulation market pursuant to a collaboration agreement ("Collaboration Agreement"), and will manufacture test strips for these products under a supply agreement with Siemens. We are seeking other partners and distributors for those parts of the point-of-care coagulation market not addressed by the Siemens collaboration.
- Other electrochemical-cell based tests – We are working on broadening the application of our technology platform, including tests based on enzymatic, immunoassay and molecular diagnostic methods. We may seek to enter into collaborative arrangements or strategic alliances with respect to any tests arising from this work.

Interim Financial Statements

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the financial statements and footnotes thereto as of and for the year ended December 31, 2012, included in the Form 10-K of Universal Biosensors, Inc.

The year-end consolidated condensed balance sheet data as at December 31, 2012 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain prior year amounts in the consolidated condensed financial statements have been reclassified to conform to the current presentation.

Basis of Presentation

All amounts within these consolidated financial statements are expressed in Australian dollars ("AUD" or "A$") unless otherwise stated.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary UBS. 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.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

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 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 uses 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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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. At June 30, 2013 and year ended December 31, 2012, 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 incorporating 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.

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.

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	Six Months Ended June 30, 2013	Year Ended December 31, 2012
	A$	A$
Raw materials	1,967,150	2,925,482
Work in progress	118,388	120,596
Finished goods	167,275	556,159
	2,252,813	3,602,237

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.

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
	A$	A$
Accounts receivable	2,489,924	2,282,888
Allowance for doubtful debts	0	0
	2,489,924	2,282,888

Property, Plant, and Equipment

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 Victorian government grant monies under grant agreements to support our 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 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.

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Research and development expenses for the three and six months ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	A$	A$	A$	A$
Research and development expenses	3,448,202	3,118,746	7,906,131	5,383,644

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.

We are subject to income taxes in the United States and Australia. U.S. federal income tax returns up to and including the 2011 financial year have been filed. Internationally, consolidated income tax returns up to and including the 2012 financial year have been filed.

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:

	Six Months Ended June 30,	Year Ended December 31,
	2013	2012
	A$	A$
Opening balance	2,351,464	2,166,691
Accretion expense	99,233	184,773
Ending balance	2,450,697	2,351,464

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.

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- 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 are 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)

Revenues, expenses and assets are recognized net of the amount of associated GST, unless the GST 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 receivable or payable. The net amount of GST 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 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

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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, 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 does not have 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 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, and as such have accounted for this income as "revenues".

Product and Service Agreements

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 that 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) 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.

In October 2011, the Company entered into a Statement of Work pursuant to the Development and Research Agreement with LifeScan to provide services for a feasibility study for an innovative blood glucose product. The services relating to this agreement were completed towards the end of 2012.

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Research and Development 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 Company may receive up to six payments from Siemens upon the achievement of certain defined milestones. These six milestones 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 six milestones, the Company has delivered on two as of June 30, 2013:

- In June 2012, the Company delivered on its first milestone by achieving proof of technical feasibility of a new test strip and received a payment of A$1,522,534 (equivalent to US$1.5 million) as consideration. A sum of A$2,175,048 (equivalent to US$2,142,857) has been recognized as revenue from services in June 2012 in this regard.
- In July 2012, the Company delivered on its second milestone by achieving proof of technical feasibility of another new test strip and received a payment of A$1,438,711 (equivalent to US$1.5 million) as consideration. A sum of A$2,055,301 (equivalent to US$2,142,857) has been recognized as revenue from services in July 2012 in this regard.

There were no revenues recognized for the three months and six months ended June 30, 2013 and three months ended March 31, 2012 relating to the deliverable of the milestones pursuant to the Collaboration Agreement. Of the total amount of A$4,230,349 (equivalent to US$4,285,714) recognized as revenue for the 2012 financial year, A$2,961,245 (equivalent to US$3.0 million) relates to the achievement of the two milestones whilst the balance relates to a portion of the deferred US$3 million up-front payment allocated to these milestones based upon their relative estimate of selling price.

Interest income

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

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 the Company and UBS is AUD or A$ for all years presented.

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$755,415 and (A$33,265) for the three month period ended June 30, 2013 and 2012, respectively and A$709,063 and (A$130,238) for the six month period ended June 30, 2013 and 2012, respectively.

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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 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. Our contingent liabilities as at June 30, 2013 are as follows:

- we have a potential obligation to reimburse 50% of the patent fees paid by LifeScan in respect of the patents we license from LifeScan prior to the date of the first commercial sale of a non-glucose product that utilizes the technology licensed from LifeScan and 50% of the patent fees incurred by LifeScan in respect of such patents thereafter. In the event of the first commercial sale of a non-glucose product, the initial amount that would be paid by us to LifeScan is projected to be between US$1.3 million to US$1.6 million. We would have the right to make this payment either as a lump sum within 45 days of receipt of the supporting documentation from LifeScan or in equal monthly installment payments during the 24 months subsequent to the date of receipt of the supporting documentation. Currently, the non-glucose products continue to be in the research and development phase.
- 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. The total amount of marketing support payments expected to be paid to LifeScan is approximately US$2 million. Based on the current volume of strips sold by LifeScan, and given that we have no visibility of future sales by LifeScan, it is uncertain whether we will be required to pay this marketing support payment.
- we have engaged Planet Innovation Pty Ltd (“Planet Innovation”) to assist us with design and engineering for future analyzers. As part of the agreement, Planet Innovation will be paid a success payment upon the formal acceptance of the analyzer for commercial manufacture and a further success payment on launch sign-off for the first commercial sale of the analyzer. All of the analyzers Planet Innovation is currently working on are in the research and development phases, and therefore at this stage their commercial manufacture and sale and the amount of any future success payment cannot be reliably estimated.

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. Legal and maintenance fees incurred for patents relating to commercialized products are capitalized and amortized over the life of the patents.

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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 periods ending June 30, 2013 and December 31, 2012 are considered operating leases. The costs of operating leases are charged to the statement 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 Zero Priced Employee Options ("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 options to acquire 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.

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.

(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 the maximum amount permitted by law and the Listing Rules of the 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 the 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.

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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:

	Mar-13	Nov-12	Nov-12	Sep-12	Mar-12
Exercise Price (A$)	0.79	Nil	1.09	0.73	0.75
Share Price at Grant Date (A$)	0.79	1.09	1.09	0.73	0.75
Volatility	65%	66%	66%	67%	67%
Expected Life (years)	7	7	7	7	7
Risk Free Interest Rate	3.37%	2.82%	2.82%	3.00%	3.78%
Fair Value of Option (A$)	0.45	1.09	0.63	0.42	0.44

Stock option activity during the current period is as follows:

	Number of shares	Weighted average exercise price A$
Balance at December 31, 2012	11,718,464	1.01
Granted	61,500	0.31
Exercised	(748,640)	0.30
Lapsed	(138,002)	1.02
Balance at June 30, 2013	10,893,322	1.06

The number of options exercisable as at June 30, 2013 and June 30, 2012 was 8,443,268 and 7,777,784, respectively. The total stock compensation expense recognized in income statements was A$127,050 and A$280,553 for the three month period ended June 30, 2013 and 2012, respectively and A$293,502 and A$475,344 for the six month period ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, there was A$590,534 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$
2013	345,390
2014	196,364
2015	48,780
	590,534

The aggregate intrinsic value for all options outstanding as at June 30, 2013 and June 30, 2012 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 RSUs 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.

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The table below sets forth the RSUs issued by the Company since January 1, 2012:

	Number of Restricted Shares Issued	Market Value of Restricted Shares Issued
November, 2012	77,945	A$ 84,960
May, 2013	917	A$ 1,000

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

	Number of shares	Weighted average issue price A$
Balance at December 31, 2012	196,089	1.10
Release of restricted shares	(6,752)	1.04
Granted	917	1.09
Balance at June 30, 2013	190,254	1.10

Employee Benefit Costs

The Company contributes to standard defined contribution superannuation funds on behalf of all employees at nine percent 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 are retired. The Company permits employees to choose an approved and registered superannuation fund into which the contributions are paid. Contributions are charged to the statements of comprehensive income as they become payable.

Borrowings

In February 2013, UBS entered into an arrangement with Lumley Finance Ltd to fund the Group's insurance premium. The total amount financed is A$767,471 at inception. Interest is charged at a fixed rate of 2.95% per annum and the short-term borrowing is repayable over a 12 month period. The short-term borrowing is secured by the insurance premium refund. The carrying value for borrowings approximates fair value because of the short maturity of the loan.

Net Loss per Share and Anti-dilutive Securities

Basic and diluted net loss per share is presented in conformity with ASC 260 – Earnings per Share. Basic and diluted net loss per share has been computed using the weighted-average number of common shares outstanding during the period. Other than in a profit making year, the potentially dilutive options issued under the Universal Biosensors Employee Option Plan were not considered in the computation of diluted net loss per share because they would be anti-dilutive given the Company's loss making position.

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 and cumulative translation adjustments.

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

	Before-Tax Amount A$	Tax (Expense)/ Benefit A$	Net-of-Tax Amount A$
Three months ended June 30, 2013			
Reclassification for losses realized in net income	12,527	0	12,527
Other comprehensive loss	12,527	0	12,527
Three months ended June 30, 2012			
Reclassification for gains realized in net income	35,001	0	35,001
Other comprehensive gain	35,001	0	35,001
Six months ended June 30, 2013			
Reclassification for gains realized in net income	0	0	0
Other comprehensive gain	0	0	0
Six months ended June 30, 2012			
Reclassification for losses realized in net income	83,339	0	83,339
Other comprehensive loss	83,339	0	83,339

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11 which amended the disclosure requirements regarding offsetting assets and liabilities of derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The enhanced disclosure requires entities to provide both net and gross information for these assets and liabilities. The amendment is effective for fiscal years beginning on or after January 1, 2013. The adoption of this guidance has not had a material impact on the company's financial statements.

In July 2012, the FASB issued ASU 2012-02 which intends to simplify how entities test indefinite-lived intangible assets other than goodwill for impairment. After an assessment of certain qualitative factors, if it is determined to be more likely than not that an indefinite-lived asset is impaired, entities must perform the quantitative impairment test. Otherwise, the quantitative test is optional. The amended guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this guidance has not had a material impact on the company's financial results.

On January 31, 2013, the FASB issued ASU 2013-01, which clarifies the scope of the offsetting disclosure requirements in ASU 2011-11. Under ASU 2013-01, the disclosure requirements would apply to derivative instruments accounted for in accordance with ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement. ASU 2013-01 is effective for fiscal years beginning on or after January 1, 2013 and interim periods within those years. The adoption of this guidance has not had a material impact on the company's financial statements.

On March 4, 2013, the FASB issued ASU 2013-05, which indicates that the entire amount of a cumulative translation adjustment (CTA) related to an entity's investment in a foreign entity should be released when there has been a:

- Sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity.
- Loss of a controlling financial interest in an investment in a foreign entity.
- Step acquisition for a foreign entity.

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ASU 2013-05 is effective for fiscal years (and interim periods within those fiscal years) beginning on or after December 15, 2013. The adoption of this guidance is not expected to have a material impact on the company's financial statements.

On February 5, 2013, the FASB issued ASU 2013-02, which requires entities to disclose the following additional information about items reclassified out of accumulated other comprehensive income (AOCI):

- Changes in AOCI balances by component.
- Significant items reclassified out of AOCI by component either on the face of the income statement or as a separate footnote to the financial statements.

ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this guidance has not had a material impact on the company's financial statements.

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 utilising SpeeDx technology. Messrs Denver and Jane are directors of the Company and SpeeDx Pty Ltd. PFM Cornerstone Limited, which holds approximately 6% of our shares and of which Messrs Denver and Hanley and Dr. Adam are directors, holds approximately 33% of the issued shares in SpeeDx. Talu Ventures Pty Ltd, of which Mr. Jane is a director, is a fund manager for a fund which holds approximately 33% of the issued shares in SpeeDx.

By way of statement on Schedule 13G dated February 7, 2013, Johnson and Johnson Development Corporation (a venture capital wholly owned subsidiary of Johnson & Johnson) reported that it no longer owned any shares in the Company. As a result of this, it is no longer a related party as of September 30, 2012.

Dr. Wilson is the spouse of Mr. Steven Wilson, who is a substantial stockholder and officer of the parent company of Wilson HTM Corporate Finance Limited ("Wilson HTM"). On November 26, 2012, we placed 13,334,000 shares of common stock at A$0.90 per share, and raised an aggregate total of A$12,000,600 (before expenses of the offer) ("Placement"). Wilson HTM acted as Lead Manager and Bookrunner for the Placement. Veritas Securities Limited acted as Co-manager to the Placement. We paid Wilson HTM a management fee of A$180,009 and a selling fee of A$360,018 in connection with the Placement. In addition, we reimbursed Wilson HTM for certain of their outgoing costs and expenses incurred in connection with the Placement. We raised A$11,460,573 net of management and selling fees paid to Wilson HTM in the Placement.

On December 17, 2012 we completed a share purchase plan ("Share Purchase Plan") offer to holders of our securities with a registered address in Australia or New Zealand and raised an aggregate total of A$1,163,442 (before expenses of the offer) by issuing 1,292,713 shares of common stock. Wilson HTM acted as Lead Manager for the Share Purchase Plan. We paid Wilson HTM a fee of A$17,452 in connection with managing the Share Purchase Plan. We raised A$1,145,990 net of fees paid to the Lead Manager in our Share Purchase Plan.

Universal Biosensors, Inc.

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial condition. You should read this analysis in conjunction with our audited consolidated financial statements and related footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K filed with the United States Securities and Exchange Commission ("SEC"). This Form 10-Q contains, including this discussion and analysis, certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by such acts. For this purpose, any statements that are not statements of historical fact may be deemed to be forward looking statements, including statements relating to future events and our future financial performance. Those statements in this Form 10-Q containing the words "believes", "anticipates", "plans", "expects", and similar expressions constitute forward looking statements, although not all forward looking statements contain such identifying words.

The forward looking statements contained in this Form 10-Q are based on our current expectations, assumptions, estimates and projections about the Company and its businesses. All such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those results expressed or implied by these forward-looking statements, including those set forth in this Quarterly Report on Form 10-Q.

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.

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 Stock Exchange (the "ASX") since December 13, 2006. Our securities are not currently traded on any other public market. Our wholly owned subsidiary and primary operating vehicle, Universal Biosensors Pty Ltd ("UBS") was incorporated as a proprietary limited company in Australia on September 21, 2001. UBS conducts our research, development and manufacturing activities in Melbourne, Australia.

We have rights to an extensive patent portfolio, with certain patents owned by UBS and a number licensed to UBS by LifeScan, Inc. ("LifeScan") and other third party licensees. 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 tests for a number of different markets. Our current focus is as set out below:

- Blood glucose – UBS provides services and acts as a non-exclusive manufacturer of test strips for LifeScan's "OneTouch® Verio®" blood glucose testing product, pursuant to a Master Services and Supply Agreement with LifeScan ("Master Services and Supply Agreement"). LifeScan continues its global rollout of the OneTouch® Verio® product which is now available in countries that represent over 90% of the world self-monitoring blood glucose market including North America, major European markets, Japan and Australia. We also undertake research and development work for LifeScan pursuant to a development and research agreement ("Development and Research Agreement").
- Coagulation testing market – UBS is working with Siemens Healthcare Diagnostics, Inc. ("Siemens") to develop a range of products for the point-of-care coagulation market pursuant to a collaboration agreement ("Collaboration Agreement"), and will manufacture test strips for these products under a supply agreement with Siemens. We are seeking other partners and distributors for those parts of the point-of-care coagulation market not addressed by the Siemens collaboration.
- Other electrochemical-cell based tests – We are working on broadening the application of our technology platform, including tests based on enzymatic, immunoassay and molecular diagnostic methods. We may seek to enter into collaborative arrangements or strategic alliances with respect to any tests arising from this work.

Universal Biosensors, Inc.

Results of Operations

Analysis of Consolidated Revenue

Our consolidated sales decreased by 43% and 35% to A$4.8 million and A$9.6 million, respectively during the three and six months ended June 30, 2013 compared to the same period in the previous financial year reflecting a reduction in manufacturing and contract research and development activities offset in part by an increase in quarterly service fee.

Revenue from Products

OneTouch® Verio® was first launched in the Netherlands in January 2010 and is now available in countries that represent over 90% of the world self-monitoring blood glucose market. The manufacturing results of the blood glucose test strips during the respective periods are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	A$	A$	A$	A$
Revenue from products	3,455,253	4,734,628	7,201,071	9,458,849
Cost of goods sold	(3,206,717)	(4,447,610)	(6,920,431)	(9,316,187)
	248,536	287,018	280,640	142,662
Production margin	7%	6%	4%	2%

Pursuant to the agreement we have with LifeScan, one of two pricing methodologies will apply depending on whether we received purchase orders above or below a specified quantity of blood glucose test strips in a quarter. If purchase orders for less than the specified quantity of test strips are received within a quarter, we are considered to be in the “interim costing period”. In the interim costing period, the Company is not expected to generate any profit from the manufacture of test strips, but is expected to recover most of its glucose manufacturing costs. If purchase orders increase beyond the specified quantity of blood glucose test strips per quarter, the interim costing period will cease to apply and a different pricing methodology will apply, at which time we expect our blood glucose manufacturing operations to be profitable. Revenue from product sales may vary every quarter and is dependent on LifeScan’s requirements. We act as a non-exclusive manufacturer of the blood glucose test strips we developed with LifeScan. In the future LifeScan may manufacture all or a large proportion of its own requirements.

Revenue from products is lower during the three and six months ended June 30, 2013 when compared to the same periods of the previous financial year as LifeScan has been sourcing a greater proportion of worldwide OneTouch® Verio® strip demand from its own facilities in Scotland. With the exception of the second quarter of 2013, we operated outside the interim costing period in all other periods mentioned above. Whilst we operated outside the interim costing period of the first quarter of 2012 and 2013, we received reduced orders from LifeScan hence sold fewer strips during the latter period.

The production margins are comparatively better during the three and six months ended June 30, 2013 when compared to the same periods of the previous financial year even though we operated within the interim costing period during the second quarter of 2013 due to the following reasons:

- improvement in manufacturing efficiency resulting in better yields and lower costs during 2013; and
- an increased price per strip negotiated with LifeScan for the quarter ended June 30, 2013.

Revenue from Services

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

- Product enhancement – a quarterly service fee based on the number of strips sold by our customers and partners 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 based on our customers’ and partners’ requirements.

Universal Biosensors, Inc.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	A$	A$	A$	A$
Revenue from services: Quarterly services fee	760,617	353,516	1,600,733	1,014,522
Contract research and development	479,893	3,225,502	479,893	4,226,386
Other services	74,690	4,000	297,730	19,620
	1,315,200	3,583,018	2,378,356	5,260,528
Cost of services	(554,388)	(204,177)	(632,013)	(429,979)
	760,812	3,378,841	1,746,343	4,830,549

Quarterly service fee – The quarterly service fee increased by 115% and 58%, respectively during the three and six months ended June 30, 2013 compared to the same period in the previous financial year, reflecting ongoing market penetration and despite the impact of the worldwide recall of OneTouch® Verio® meters that occurred during this period.

Towards the end of March 2013, LifeScan initiated a voluntary recall and replacement for a majority of its OneTouch® Verio® blood glucose meters worldwide, as at extremely high blood glucose levels (1024 mg/dL and above), these meters were not functioning as intended. The problem causing this has now been corrected and LifeScan has resumed manufacturing of the meters. The impact on strip sales caused by the OneTouch® Verio® meter recall was largely felt in April and May of 2013, with the number of strips sold in June 2013 recovering strongly to exceed first quarter average levels.

If revenues for the first quarter of 2012 are adjusted to account for revenues attributable to the filling of the distribution pipeline prior to US launch of the OneTouch® Verio®, the quarterly service fee increase during the six months ended June 30, 2013 as compared to the same period in the previous financial year would be approximately 100%.

LifeScan has the ability to terminate the obligation to pay quarterly service fees to us by either: i) paying us a lump sum amount, but may only do so once it has paid us a certain level of quarterly service fees (we do not expect this level of quarterly service fees will be achieved until worldwide sales volumes have increased substantially); or ii) as a result of other factors detailed in the Master Services and Supply Agreement including termination for breach, insolvency and bankruptcy, change of control and regulatory termination.

Contract research and development – The nature and scope of contract research and development are determined by our customers and partners based upon their requirements, and therefore our revenues and margins tend to fluctuate. We generated revenue of $479,893 as reimbursement of costs for additional meter development work we undertook on behalf of Siemens during the second quarter of 2013. We did not perform and generate any revenue from contract research and development during the three months ended March 31, 2013. Revenue from contract research and development for the three and six months ended June 30, 2012 related to the following:

- We generated revenues of A$1,050,454 and A$2,051,338, respectively, during the three and six months ended June 30, 2012 relating to a project to demonstrate the feasibility of an innovative blood glucose product that we undertook for LifeScan. This project was completed towards the end of 2012.
- In June 2012, the Company delivered on its first milestone by achieving proof of technical feasibility of a new test strip and received a payment of A$1,522,534 (equivalent to US$1.5 million) from Siemens as consideration. A sum of A$2,175,048 (equivalent to US$2,142,857) has been recognized as revenue from services in June 2012 in this regard.

Other services – We generated revenues principally from Siemens based on work undertaken for them during the three and six months ended June 30, 2013 and 2012.

Universal Biosensors, Inc.

Research and Development Expenses

Research and development expenses are related to developing electrochemical cell platform technologies. 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, salary 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

We have developed a Prothrombin Time test for monitoring the therapeutic range of the anticoagulant, warfarin, based on measuring activity of the enzyme thrombin. In September 2011 we entered into a Collaboration Agreement with Siemens which was amended in September 2012, pursuant to which we will develop a range of test strips and reader products for the point-of-care coagulation market. The first test currently being developed is a modified version of our Prothrombin Time International Normalized Ratio test. In 2012, we entered into a Supply Agreement with Siemens under which we will manufacture and supply the test strips for these systems. All the systems we are currently developing in the blood coagulation platform are in the development phase of research and development.

(b) Immunoassay

We are continuing to develop our immunoassay platform. We are developing a D-dimer test for the detection and monitoring of several conditions associated with thrombotic disease, particularly deep venous thrombosis (clots in the leg) and pulmonary embolism (clots in the lung). We are also working on a C-reactive protein test to assist in the diagnosis and management of inflammatory conditions.

This work, which is currently in the feasibility phase, will allow the electrochemical cell platform technology to be expanded to a range of immunoassay tests.

(c) 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 Pty Ltd 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	A$	A$	A$	A$
Research	573,422	292,762	978,678	921,970
Development	2,874,780	2,825,984	6,927,453	4,461,674
Research and development expenses	3,448,202	3,118,746	7,906,131	5,383,644

The majority of our development expenditure is on “late-stage” development where we are expecting to generate near term revenues from commercial product sales.

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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. The closer the idea or the concept to a product, the lower the technical risk but the greater the effort and cost expended. 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 increased by 11% and 47% during the three and six months ended June 30, 2013 compared to the same period previous financial year. The increase is explained by the number of tests we have in the development phase. During the first half of 2012, we only had the Prothrombin Time test in the development stage. In addition to the Prothrombin Time test which is in the final stages of the development phase and is anticipated to launch in the current financial year, we currently have three other tests which are in the development phase prior to launch. Of these three tests, all within the point-of-care coagulation market, two tests are part of our collaboration with Siemens.

A significant portion of our development costs, in particular relating to the design and development of the handheld analysers, are currently outsourced. Outsourced costs as a proportion of the development costs for the three months ended June 30, 2013 and 2012 were 39% and 26%, respectively and 42% and 23% for the six months ended June 30, 2013 and 2012, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	A$	A$	A$	A$
Depreciation	153,435	175,968	304,758	358,671
Share based payments	55,257	121,970	127,651	206,656
	208,692	297,938	432,409	565,327

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 for the three months ended June 30, 2013 and 2012 were A$2,366,780 and A$2,378,267, respectively and A$5,776,715 and A$3,973,876 for the six months ended June 30, 2013 and 2012, respectively.

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.

Universal Biosensors, Inc.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	A$	A$	A$	A$
General and administrative expenses	1,487,733	1,583,980	2,795,398	3,068,856

General and administrative expenses decreased by 6% and 9% during the three and six months ended June 30, 2013 compared to the same period of the previous financial year, generally reflecting the results of our ongoing efforts to reduce overhead costs.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	A$	A$	A$	A$
Depreciation	17,760	22,932	36,337	46,091
Share based payments	60,413	134,404	139,561	227,722
	78,173	157,336	175,898	273,813

Interest Income

Interest income increased by 13% and 20% during the three and six months ended June 30, 2013 compared to the same period in the previous financial year. The increase in interest income is generally attributable to the higher amount of funds available for investment.

Interest Expense

Interest expense for the current financial year relates to a 2.95% interest being charged on a short-term borrowing initiated in February 2013. In comparison, interest expense for the 2012 financial year relates to a 3.2% interest being charged on a short-term borrowing initiated in January 2012.

Other

Other 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.

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.

Universal Biosensors, Inc.

(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 probable. 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 ZEPOs, the value of the options granted since 2010 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 have been valued at 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.

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(d) Impairment of Long-Lived Assets

We review our 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, 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.

Financial Condition, Liquidity and Capital Resources

Net Financial Assets

Our net financial assets position is shown below:

	Six Months Ended June 30, 2013 A$	Year Ended December 31, 2012 A$
Financial assets:		
Cash and cash equivalents	18,095,399	23,649,417
Accounts receivable	2,489,924	2,282,888
Total financial assets	20,585,323	25,932,305
Debt:		
Short term borrowings	383,735	0
Total debt	383,735	0
Net financial assets	20,201,588	25,932,305

We rely largely on our existing cash and cash equivalents and funds from our operations 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.

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 for the six months ended June 30, 2013 and for the year ended December 31, 2012.

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. At June 30, 2013 and year ended December 31, 2012, 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 June 30, 2013 and December 31, 2012. During the periods ended June 30, 2013 and December 31, 2012, there were no gains recognized and recorded in earnings. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the periods ended June 30, 2013 and December 31, 2012 For further details, see Notes to Consolidated Financial Statements – *Summary of Significant Accounting Policies.*

Universal Biosensors, Inc.

Measures of Liquidity and Capital Resources

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

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
	A$	A$
Cash and cash equivalents	18,095,399	23,649,417
Working capital	18,276,090	24,168,714
Ratio of current assets to current liabilities	3.80:1	4.83:1
Shareholders' equity per common share	0.18	0.23

The movement in cash and cash equivalents and working capital during the six months ended June 30, 2013 was primarily due to an increase in cash spent on research and development costs, as well as an increase in working capital requirements due to the timing of cash receipts and payment of expenses during the period. In addition to the reductions resulting from operating outflows of cash in 2012, we also had financing inflows of A$12,524,124 (net of related transaction costs) which we raised in capital by way of a Placement and Share Purchase Plan. We have not identified any collection issues with respect to receivables.

Summary of Cash Flows

	Six Months Ended June 30,	
	2013	2012
	A$	A$
Cash provided by/(used in):		
Operating activities	(6,680,322)	(356,839)
Investing activities	(74,968)	(420,562)
Financing activities	560,806	397,870
Net increase/(decrease) in cash and cash equivalents	(6,194,484)	(379,531)

Our net cash used in operating activities for all periods is for our research and development projects, general and administrative expenditure and manufacture of OneTouch® Verio® strips. The outflows during these periods have been partially offset by receipts from our customers and partners. The company's operating activities consumed more cash during the six month period ended June 30, 2013 as compared to the same period in 2012 primarily as a result of a decrease in contract research and development services revenue and continued investment in the development of the Siemens products. This was partially offset by an improved production margin and an increase in the amount of the quarterly service fees from LifeScan.

Our net cash used in investing activities for all periods is primarily for the purchase of various plant and equipment, and the fit out of our facilities based on our needs.

A$177,071 and A$13,818 of the financing activities for the six months ended June 30, 2013 and 2012 are attributable to proceeds received from employees exercising their options. The balance of the financing activity represents us taking advantage of a favorable borrowing opportunity to prepay our annual insurances.

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Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2013 are:

	A$
Less than 1 year	437,323
1 – 3 years	11,616
More than 3 years	8,068
Total minimum lease payments	457,007

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 June 30, 2013 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)	2,450,697	2,450,697	0	0	0
Operating Lease Obligations (2)	457,007	437,323	11,616	8,068	0
Purchase Obligations (3)	975,713	975,713	0	0	0
Other Long-Term Liabilities on Balance Sheet (4)	200,536	0	148,677	48,575	3,284
Total	4,083,953	3,863,733	160,293	56,643	3,284

(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) 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 the single geographical area of Australia.

The Company's total income has been derived from the following countries:

		Three Months Ended June 30,		Six Months Ended June 30,	
		2013	2012	2013	2012
		A$	A$	A$	A$
Home country	– Australia	136,057	120,512	293,359	244,680
Foreign countries	– Scotland	3,455,253	5,789,082	7,201,071	11,514,187
	– U.S.A.	554,583	2,175,048	777,623	2,190,668
	– Switzerland	760,617	353,516	1,600,733	1,014,522
Total	– Foreign countries	4,770,453	8,317,646	9,579,427	14,719,377
Total income		4,906,510	8,438,158	9,872,786	14,964,057
% of total income derived from	– LifeScan	86%	73%	89%	84%
	– Siemens	11%	26%	8%	15%

We continue to derive a significant portion of our revenues from LifeScan.

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

Universal Biosensors, Inc.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

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.

Although the Company has a hedging program, as at June 30, 2013 and December 31, 2012, there were no open derivatives that would need to be disclosed.

Interest Rate Risk

Since the majority of our investments are in cash and cash equivalents in Australian dollars, our interest income is affected by changes in the general level of 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.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. At the end of the period covered by this report, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Paul Wright, Chief Executive Officer, and Salesh Balak, Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Wright and Balak concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. During the fiscal quarter ended June 30, 2013, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation referred to above in this Item 4 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Universal Biosensors, Inc.

PART II

Item 1 Legal Proceedings

None.

Item 1A Risk Factors

None.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

With the exception of the issuance of shares of Common Stock upon the exercise of stock options issued to employees, there has been no sale of equity securities by the Company or purchase of equity securities by the Company, or by an affiliated purchaser on behalf of the Company, since December 31, 2012. The table below sets forth the number of employee stock options exercised and the number of shares issued in the six month period ended June 30, 2013. The Company issued these shares in reliance upon exemptions from registration under Regulation S under the Securities Act of 1933, as amended.

Exercise Date	Number of Options Exercised and Corresponding Number of Shares Issued	Option Exercise Price	Proceeds Received (A$)
May, 2013	40,000	US$0.22	9,020
June, 2013	672,392	US$0.22	157,251
June, 2013	36,248	US$0.26	9,800
	748,640		176,071

The funds raised will be used for working capital requirements including the continued development of our existing pipeline of point-of-care tests, and to identify and develop additional tests.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable.

Item 5 Other Information

None.

Item 6 Exhibits

Exhibit No	Description	Location
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	Filed herewith
32	Section 1350 Certificate	Furnished herewith
101	The following materials from the Universal Biosensors, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements text	

Universal Biosensors, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSAL BIOSENSORS, INC.
(Registrant)

By: /s/ Paul Wright
Paul Wright
Principal Executive Officer

Date: August 1, 2013

By: /s/ Salesh Balak
Salesh Balak
Principal Financial Officer

Date: August 1, 2013

INDEX TO EXHIBITS
Quarterly Report on Form 10-Q
Dated August 1, 2013

Exhibit No	Description	Location
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Exhibit 31.1

CERTIFICATION

I, Paul Wright, certify that:

1. I have reviewed this report on Form 10-Q of Universal Biosensors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2013

/s/ Paul Wright
Paul Wright
Principal Executive Officer
Universal Biosensors, Inc.

Exhibit 31.2

CERTIFICATION

I, Salesh Balak, certify that:

1. I have reviewed this report on Form 10-Q of Universal Biosensors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2013

/s/ Salesh Balak
Salesh Balak
Principal Financial Officer
Universal Biosensors, Inc.

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 *

In connection with the quarterly report of Universal Biosensors, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. The undersigned have executed this Certificate as of the 1st day of August, 2013.

/s/ Paul Wright
Paul Wright
Principal Executive Officer

/s/ Salesh Balak
Salesh Balak
Principal Financial Officer

* This certification is being furnished as required by Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent such certification is explicitly incorporated by reference in such filing.