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Universal Biosensors

Universal Biosensors, Inc.

ASX Preliminary final report – December 31, 2014
Lodged with the ASX under Listing Rule 4.3A

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

Contents

Universal Biosensors, Inc.
("Company")

1. **Reporting period: Year ended December 31, 2014**
   (Previous corresponding period: Year ended December 31, 2013)

2. **Results for announcement to the market**

			31 December 2014 A$	31 December 2013 A$
Revenue from ordinary activities	Down	37% to $9,529,684	9,529,684	15,089,672
Loss from ordinary activities after tax	Down	20% to $9,316,127	9,316,127	11,633,807
Loss for the year attributable to members	Down	20% to $9,316,127	9,316,127	11,633,807

Other key results

	2014 ($)	**2013 ($)**	**Change**
Quarterly service sees	6.4M	3.4M	Up 89%
Total revenue	9.5M	15.1M	Down 37%
Contribution from products & services	9.0M	3.4M	Up 160%
Research & development expense	17.1M	15.5M	Up 11%
General & administrative expense	5.6M	6.2M	Down 9%
Other income/(expense)	4.5M	6.6M	Down 32%
Net Loss	9.3M	11.6M	Improved 20%
Operating cash outflows	5.4M	16.6M	Improved 67%
Cash balance	16.3M	23.7M	Down 31%

A brief explanation of the above figures is set out in Schedule 1.

3. **Statement of comprehensive income**

   Refer to Schedule 1.

4. **Statement of financial position**

   Refer to Schedule 1.

5. **Statement of cash flows**

   Refer to Schedule 1.

6. **Dividends**

   There were no dividends declared during the year ended December 31, 2014 and the directors do not

propose to pay a dividend in the foreseeable future.

7. Dividend reinvestment plans

Not applicable.

8. Statement of accumulated losses

Refer to Schedule 1.

9. Net tangible asset backing

	December, 31 2014	December 31, 2013
Net tangible asset per share	A$0.11	A$0.17

10. Entities over which control has been gained or lost

Not applicable.

11. Associates and joint ventures

Not applicable.

12. Other significant information

Nil other than that already disclosed.

13. Foreign entities

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

14. Commentary on results to December 31, 2014

Refer Schedule 1

15. Compliance Statement

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

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Salesh Balak
Chief Financial Officer
February 19, 2015

Universal Biosensors, Inc.

2014 Annual Report

Contents

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

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

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

Our Business

We are a specialist medical diagnostics company focused on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use.

We were incorporated in the State of Delaware on September 14, 2001 and our shares of common stock in the form of CHESS Depositary Interests ("CDIs") have been quoted on the Australian Securities Exchange ("ASX") since December 13, 2006. Our securities are not currently traded on any other public market. Our wholly owned subsidiary and primary operating vehicle, Universal Biosensors Pty Ltd 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 and other third party licensors. Unless otherwise noted, references to "LifeScan" in this document are references collectively or individually to LifeScan, Inc., and/or LifeScan Europe, a division of Cilag GmbH International, both affiliates of Johnson and Johnson.

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

- Coagulation testing market – we are working with Siemens Healthcare Diagnostics, Inc. ("Siemens") in relation to a range of products for the point-of-care coagulation market, pursuant to a Collaboration Agreement with Siemens ("Collaboration Agreement"). The first such product developed with Siemens, the Xprecia Stride™ Coagulation Analyzer, received CE mark approval on December 9, 2014 and is now being released by Siemens in Europe. Under the terms of a supply agreement with Siemens ("Supply Agreement"), UBS acts as exclusive manufacturer of test strips for this product and two further tests still in development with Siemens. We are also developing our own Prothrombin Time International Normalized Ratio ("PT-INR") test targeted at the patient self-test market and intend to enter into distribution arrangements with respect to that test.
- Blood glucose – we will provide services to LifeScan as required from time to time, pursuant to a Master Services and Supply Agreement ("Master Services and Supply Agreement") and a development and research agreement ("Development and Research Agreement") with LifeScan.
- Other electrochemical-cell based tests – we are working on proving the broader applicability of our technology platform, including tests based on enzymatic, immunoassay and molecular diagnostic methods. We may seek to enter into collaborative arrangements, strategic alliances or distribution agreements with respect to any tests arising from this work.

Results of Operations

Analysis of Consolidated Revenue

Our total revenue during the 2014 financial year was A$9,529,684. This was 37% down on 2013 revenues which were in turn 49% below 2012 levels.

The major driver of the decline in revenues from 2012 to 2014 was due to the decline and eventual exit from low margin blood glucose strip manufacturing at our Rowville facility. In addition, one-off revenues from product development milestones from Siemens and research and development services for LifeScan in 2012 have accentuated the declines in revenues over this period. However, underlying these major factors has been a significant increase of quarterly service fees revenues over this three year period based on growing sales by

LifeScan of the OneTouch Verio test strips worldwide.

Revenue from Products

Between 2009 and 2013, we acted as a non-exclusive manufacturer of blood glucose test strips for LifeScan's OneTouch® Verio® blood glucose testing product. With effect from December 31, 2013, we ceased the manufacture of the OneTouch® Verio® blood glucose test strips for LifeScan. Manufacture of the OneTouch® Verio® strips has been transitioned to LifeScan's existing facility in Inverness, Scotland. We commenced manufacture of the PT-INR test strips on behalf of Siemens during the third quarter of 2014.

The financial results of the test strips we manufactured during the respective periods are as follows:

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Revenue from products	215,486	10,170,804	19,368,745
Cost of goods sold	(313,374)	(10,455,567)	(17,987,049)
	(97,888)	(284,763)	1,381,696
Gross margin	-45%	-3%	7%

(i) PT-INR test strips (2014)

Whilst we made a positive margin from the sale of our PT-INR strips before overheads, the initial low volumes are not sufficient to cover all indirect expenditures.

(ii) OneTouch® Verio® strips (2013 and 2012)

Glucose strip manufacturing revenues declined over this period due to both volume and pricing impacts.

The volume of glucose test strips manufactured at our Rowville facility declined from 2012 to 2013 as LifeScan shifted more of the worldwide strip production to their facility in Inverness. In addition, in 2013, as these manufacturing volumes declined below a defined threshold specified in our Master Services and Supply Agreement the transfer price per strip was reduced.

Revenue from Services

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

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

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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Revenue from services:			
Quarterly service fee	6,448,033	3,405,881	2,236,251
Contract research and development	1,750,486	479,893	7,989,732
Other services	1,115,679	1,033,094	51,715
	9,314,198	4,918,868	10,277,698
Cost of services	(242,453)	(1,187,244)	(669,042)
Net margin	9,071,745	3,731,624	9,608,656

Quarterly service fee - The quarterly service fee paid by LifeScan increased by 89% during the 2014 financial year compared to the 2013 financial year and by 52% during the 2013 financial year when compared to the 2012 financial year, reflecting ongoing market penetration and growth. In March 2013, LifeScan initiated a voluntary recall and replacement for a majority of its OneTouch® Verio® blood glucose meters worldwide, which impacted sales in 2013. The issue giving rise to the meter recall has been addressed. The recall did not relate to the blood glucose testing strips manufactured by us.

The OneTouch® Verio® system is now sold in over 90% of the world self-monitored blood glucose market. LifeScan launched the product initially in the Netherlands in January 2010 before making it available for sale in Australia in September 2010. During 2011, there were further launches of the product in Europe including France, Italy, Germany, the United Kingdom, Ireland and Spain. LifeScan first launched the OneTouch® Verio® system in the United States in January 2012.

LifeScan has the ability to terminate the obligation to pay quarterly service fees to us in certain situations set out in the Master Services and Supply Agreement or with the agreement of Universal Biosensors. LifeScan has the option to give notice to convert the quarterly service fees, which it may only do so once it has paid cumulative quarterly service fees of US$45 million. As of December 31, 2014, LifeScan had paid cumulative quarterly service fees of US$11.8 million. Where it gives such notice, LifeScan is required to the pay the quarterly service fees for the remainder of the year in which notice is given and at the end of that year, LifeScan must pay a one-time lump sum fee. This fee is calculated by multiplying the sum of all quarterly service fees for the relevant year in which notice is given by a multiplier (on a sliding scale from 2.6x if notice is given in 2015 to 2x if notice is given in 2018 and beyond).

By way of illustration, if cumulative quarterly service fees reached US$45 million at 30 September 2017 and quarterly service fees for the 2017 period totalled US$16 million, and LifeScan elected to pay the one-time lump sum fee at the earliest possible date being 1 January 2018, we would receive US$72.4 million in future payments under the contract, calculated as follows:

- *US$33.2 million quarterly service fees from 1 January 2015 to 30 September 2017,*
- *Plus US$4.0 million in quarterly service fees from 1 October 2017 to 31 December 2017,*
- *Plus US$35.2 million in one-time lump sum fee, equal to 2.2 multiplier by 2017 total quarterly service fees*

LifeScan may also terminate the obligation to pay quarterly service fees if certain other factors detailed in the Master Services and Supply Agreement arise, including LifeScan ceasing to sell the product, 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 is determined by our customers and partners based upon their requirements and therefore our revenues and margins tend to fluctuate. Revenue from contract research and development for 2012, 2013 and 2014 related to the following:

- Services provided to LifeScan
    - We generated revenues of A$3,081,483 during 2012 relating to a project to demonstrate the

feasibility of an innovative blood glucose product that we undertook for LifeScan in 2011. This project was completed towards the end of 2012.

- Services provided to Siemens
  - In June and July 2012, the Company delivered on its first and second milestones under the Collaboration Agreement with Siemens by achieving proof of technical feasibility of a new test strip and received payments of A$1,522,534 (equivalent to US$1.5 million) and A$1,438,711 (equivalent to US$1.5 million). A sum of A$4,230,349 (equivalent to US$4,285,714) has been recognized as revenue from services in 2012 for this work.
  - We generated revenues of A$479,893 and A$677,900, respectively, during 2013 and 2012 as reimbursement of costs for additional meter development work we undertook on behalf of Siemens.In December 2014, the Company delivered on its third milestone under the Collaboration Agreement with Siemens when the Xprecia Stride™ Coagulation Analyzer was launched by Siemens. The Company will receive a payment of A$1,225,340 (equivalent to US$1.0 million) as consideration. A sum of A$1,750,486 (equivalent to US$1,428,571) has been recognized as revenue from services in 2014 for this work.

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

Contribution from Products & Services

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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Quarterly service fees	6,448,033	3,405,881	2,236,251
Manufacturing contribution	(97,888)	(284,763)	1,381,696
Milestone payments	1,750,486	0	4,230,349
Other services	873,226	325,743	3,142,056
Contribution from products & services	8,973,857	3,446,861	10,990,352

The contribution from quarterly service fees has shown good growth from 2012 to 2014. However, the contribution from other revenue sources has fluctuated over the same period, resulting in a decline in 2013 and then an increase in total contribution.

Manufacturing contribution declined over the three year period due to the decrease in glucose strip manufacturing volumes. Contribution from other services fluctuated over the period due to the timing of one-off milestone payments and our partners R&D services requirements

Research and Development Expenses

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

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

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

- consultant and employee related expenses, which include consulting fees, 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

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 hospital point-of-care and alternative site coagulation testing markets. The first such product developed with Siemens, the Xprecia Stride™ Coagulation Analyzer, received CE mark approval on December 9, 2014 and is now being released by Siemens in Europe. In 2012, we entered into a Supply Agreement with Siemens under which we will manufacture and supply the test strips for this product and two further tests still in development with Siemens. We are also developing our own PT-INR test for use in decentralized settings including the patient self-test market. All the systems we are currently developing in the blood coagulation platform are in the advanced development phase.

(b) Immunoassay

We are continuing to develop our immunoassay platform targeting a broad range of potential assays. Our vision is to target a single analyzer and consumable design that can detect analytes across a wide range of sensitivities creating a broad-based multi-test solution while minimizing the incremental research and development effort required for each new test. This platform incorporates the ability to perform D-Dimer and C Reactive Protein tests and leverages past research work on these tests.

This work is currently in the feasibility phase.

(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:

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Research	1,194,323	1,829,411	1,511,772
Development	15,941,728	13,654,491	11,970,687
Research and development expenses	17,136,051	15,483,902	13,482,459

Included under "Development" in 2014 is the development cost of the Xprecia Stride™ Coagulation Analyzer of $4.99 million which was launched by Siemens in December 2014.

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 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% during 2014 compared to 2013 and increased by 15% during 2013 compared to 2012. During these three years, our research and development activities were primarily focused around the blood coagulation platform. The increase principally reflects the effort required to complete the final stages of the development phase prior to launch of the various tests we are undertaking. The first of the tests, the Xprecia Stride™ Coagulation Analyzer, was launched by Siemens in December 2014.

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

	Years Ended December 31,		
	2014	2013	2012
	A$	A$	A$
Research and development expenses	17,136,051	15,483,902	13,482,459
Research and development tax incentive income	(9,935,083)	(6,279,954)	0
	7,200,968	9,203,948	13,482,459

We received research and development tax incentive income of A$8.0 million for the 2013 financial year, which is represented by $6.3 million accrued in 2013 and A$1.7 million in 2014. We expect to receive A$8.2 million as research and development tax incentive income for the 2014 financial year.

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

	Years Ended December 31,		
	2014	2013	2012
	A$	A$	A$
Depreciation	2,296,374	610,111	656,350
Share based payments	(461,824)	256,870	404,102
	1,834,550	866,981	1,060,452

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

In addition, our business strategy contemplates that we may enter into collaborative arrangements with third parties for one or more of our non-blood glucose programs. In the event that we are successful in securing such third party collaborative arrangements, the third party may direct the research and development activities and may contribute towards all or part of the cost of these activities, both of which will influence our research and development expenditure. Research and development activities undertaken on behalf of our customers and partners were A$9,971,035, A$10,401,575 and A$9,983,211, respectively for 2014, 2013 and 2012.

General and Administrative Expenses

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

expenses are generally fixed in nature.

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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
General and administrative expenses	5,623,748	6,200,786	6,790,524

General and administrative expenses decreased by 9% during 2014 compared to 2013 and decreased by 9% during 2013 compared to 2012, reflecting management's ongoing efforts to restrict spending on non-core activities.

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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Depreciation	124,093	72,165	97,252
Share based payments	(166,044)	280,830	443,310
	(41,951)	352,995	540,562

Interest Income

Interest income decreased by 48% during 2014 compared to 2013 and increased by 14% during 2013 compared to 2012. The increase in interest income in 2013 is generally attributable to higher amounts of funds available for investment in Australian currency during the course of the year. The decrease in interest income in 2014 is generally attributable to the lower amount of funds available for investment in Australian currency. A large portion of our funds in 2014 is held in US denominated currency when compared to 2013 and 2012 which currently does not produce any investment interest.

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Interest income	260,904	499,970	437,171

Interest Expense

Interest expense for the 2014 financial year relates to 2.88% interest being charged on a short-term borrowing initiated in January 2014. Interest expense for the 2013 financial year relates to 2.95% being charged on a short-term borrowing initiated in February 2013. Interest expense for the 2012 financial year relates to 3.2% interest being charged on a short-term borrowing initiated in January 2012. All these short-term loans were taken out to fund our insurance premiums and were repaid during the financial year when made.

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Interest expense	15,905	22,640	29,263

Financing Costs

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

	Years Ended December 31,		
	2014	2013	2012
	A$	A$	A$
Interest expense	1,784,309	58,672	0
Warrants expense	181,779	5,994	0
Other debt issuance costs	680,004	732,460	0
	2,646,092	797,126	0

Interest expense relates to applicable interest of 10.5% levied on the loan. The fair value of the warrant issued to the Lenders was estimated using the Trinomial Lattice model. The debt issuance costs were recorded as deferred issuance costs and are amortized as interest expense, using the effective interest method, over the term of the loan. A$710,101 of the debt issuance costs is attributable to attending to the preparation, review and finalization of the loan documentation in 2013.

Patent Fees

We have an obligation to pay 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. This obligation was triggered with the first commercial sale of the Xprecia Stride™ Coagulation Analyzer by Siemens in December 2014. The initial amount that is to be paid by us to LifeScan is expected to be US$1.75 million. We 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 from LifeScan. The patent fees payable to LifeScan has been recorded as "Other liability" in consolidated balance sheets.

Other

Included under this caption is the research and development tax incentive income. The Company determined that it qualified and became eligible for the research and development tax incentive income for the 2013 and 2014 financial year. The Company has recorded research and development tax incentive income of A$6,279,954 for 2013 but received an amount of $8,015,037 as research and tax development incentive income in September 2014. The additional income of $1,735,083 is recorded as research and development tax incentive income in 2014. The Company expects to receive and has recorded research and development tax incentive income of A$8,200,000 for 2014. The balance for all years under this caption is primarily represented by foreign exchange movements arising from the settlement of foreign denominated transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

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

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

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

- a 45% refundable tax offset for entities with an aggregated turnover of less than A$20 million per annum, or
- a 40% non-refundable tax offset for all other entities.

Critical Accounting Estimates and Judgments

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

basis. Our actual results may differ from these estimates.

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

(a) Revenue Recognition

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

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

(b) Stock-Based Compensation

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

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

Share Price and Exercise Price at Valuation Date

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

Volatility

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

Time to Expiry

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

Risk Free Rate

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

(c) Income Taxes

We apply ASC 740 – Income Taxes which establishes financial accounting and reporting standards for the effects of income taxes that result from a company's activities during the current and preceding years. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and

operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

(d) Impairment of Long-Lived Assets

We review our capital assets, 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.

(e) Warrants

In connection with our US$25 million loan facility, we issued to the lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI's common stock in the form of CDIs at a price of A$1.00 per share. The fair value of the warrants to purchase common stock is estimated using the Trinomial Lattice model. Each of the inputs to the Trinomial Lattice model is discussed below.

Share Price and Exercise Price at Valuation Date

The share price of the warrants granted has been determined using the closing price of our common stock trading in the form of CDIs on ASX at the time of entering in to the loan facility. The ASX is the only exchange upon which our securities are quoted. The exercise price has been determined as stated in the Credit Agreement.

Volatility

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

Time to Expiry

The warrants have a term of seven years.

Risk Free Rate

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

Financial Condition, Liquidity and Capital Resources

Net Financial Assets

Our net financial assets position is shown below:

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$		**A$**
Financial assets:			
Cash and cash equivalents	16,329,829	23,742,422	23,649,417
Accounts receivables	3,799,705	2,167,867	2,282,888
Financial instruments	0	0	0
Total financial assets	20,129,534	25,910,289	25,932,305
Debt:			
Short term borrowings	498,890	0	0
Long term secured loan	17,499,194	15,857,966	0
Net financial assets	2,131,450	10,052,323	25,932,305

Since inception, we have financed our business primarily through the issuance of equity securities, funding from strategic partners, government grants and rebates (including the research and development tax incentive income), revenue from services and product sales.

On December 19, 2013 we entered into a Credit Agreement which was subsequently amended in January 2015 (described below under the heading "Athyrium Credit Agreement") with lenders for a US$25 million secured term loan. The term loan has a maturity date of December 19, 2018 and bears interest at 10.5% per annum. Interest payments are due quarterly over the five-year term of the term loan and, other than as described further below, we are not required to make payments of principal for amounts outstanding under the term loan until the maturity. Subject to certain exceptions, the term loan is secured by substantially all of our assets, including our intellectual property. For further details, see Notes to Consolidated Financial Statements – *Note 16, Summary of Significant Accounting Policies – Borrowings – Athyrium Credit Agreement.*

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 receivables approximates fair value because of their short-term nature.

We regularly review all our financial assets for impairment. There were no impairments recognized for the years ended December 31, 2014, 2013 and 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. For years ended December 31, 2014, 2013 and 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 December 31, 2014, 2013 and 2012, respectively. The fair value of these contracts at December 31, 2014, 2013 and 2012 were nil. During the years ended December 31, 2014 and 2013, we recognized gains of nil. During the year ended December 31, 2012, we recognized losses of A$83,339 which was recorded in earnings for the year ended December 31, 2012. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the years ended December 31, 2014, 2013 and 2012. For further details, see Notes to Consolidated Financial Statements – Note 2, *Summary of Significant Accounting Policies.*

Measures of Liquidity and Capital Resources

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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Cash and cash equivalents	16,329,829	23,742,422	23,649,417
Working capital	23,779,492	30,367,292	24,168,714
Ratio of current assets to current liabilities	4.66 : 1	6.60 : 1	4.83 : 1
Shareholders' equity per common share	0.11	0.17	0.23

The movement in cash and cash equivalents and working capital during the above periods was primarily due to (1) the net outflows of cash which reflects the effort required to complete the final stages of the development phase prior to launch of the tests we are undertaking on behalf of Siemens, and (2) to the timing of cash receipts, payments, sales and accruals in the ordinary course of business. In addition to the reductions resulting from operating outflows of cash, a first tranche loan of US$15,000,000 (equivalent to A$16,909,029) was drawn in December 2013 by UBS pursuant to the Credit Agreement. The Company was also in receipt of A$8,015,037 as research and development tax incentive income in September 2014 as a tax offset for its 2013 research and development expenses. The Company has also recorded A$9,935,083 as research and development tax incentive income for the 2014 financial year. Additionally, in 2012, we raised A$12,524,124 (net of related transaction costs) 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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Cash provided by/(used in):			
Operating activities	(5,413,869)	(16,628,576)	(3,300,757)
Investing activities	(947,386)	(159,437)	(687,245)
Financing activities	(1,792,451)	16,339,630	12,548,210
Net increase/(decrease) in cash and cash equivalents	(8,153,706)	(448,383)	8,560,208

Our net cash used in operating activities during the three years was primarily for our research and development projects including efforts involved in establishing our manufacturing operations. The outflows during these three years have been partially offset by receipts from our customers and partners and receipt of A$8,015,037 as research and development tax incentive income in September 2014 as a tax offset for our 2013 research and development expenses.

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

Our net cash provided by financing activities in 2012 relates primarily to the A$12,524,124 (net of related transaction costs) we raised in capital by way of a Placement and Share Purchase Plan. In 2013, we drew down on the initial loan of US$15,000,000 (equivalent to A$16,909,029) pursuant to the Credit Agreement. Our 2014 financing activity is primarily represented by the repayment of the financing costs associated with the Credit Agreement.

Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2014 are:

	A$
Less than 1 year	549,193
1 – 3 years	1,155,722
3 – 5 years	755,092
More than 5 years	0
Total minimum lease payments	2,460,007

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 December 31, 2014 were as follows:

	Payments Due By Period				
	Total	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**More than 5 years**
	A$	**A$**	**A$**	**A$**	**A$**
Asset Retirement Obligations (1)	2,600,000	0	0	2,600,000	0
Operating Lease Obligations (2)	2,460,007	549,193	1,155,722	755,092	0
Purchase Obligations (3)	2,553,751	2,553,751	0	0	0
Long term secured loan (4)	17,499,194	0	0	17,499,194	0
Financing costs (5)	9,566,772	2,864,138	4,590,344	2,112,290	0
Other liability (6)	2,133,626	1,066,813	1,066,813	0	0
Other Long-Term Liabilities on Balance Sheet (7)	129,206	0	74,382	52,976	1,848
Total	36,942,556	7,033,895	6,887,261	23,019,552	1,848

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

Segments

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

We operate predominantly in one geographical area, being Australia.

Recent Accounting Pronouncements

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

Financial Risk Management

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

Foreign Currency Market Risk

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

Although the Company has a hedging program, as at balance sheet date 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 U.S. or Australian dollars, our interest income is affected by changes in the general level of U.S. and Australian interest rates. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. Our investment portfolio is subject to interest rate risk but due to the short duration of our investment portfolio, we believe an immediate 10% change in interest rates would not be material to our financial condition or results of operations.

Inflation

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

Universal Biosensors, Inc.

Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
	A$	A$
ASSETS		
Current assets:		
Cash and cash equivalents	16,329,829	23,742,422
Inventories, net	397,450	4,207
Accounts receivable	3,799,705	2,167,867
Prepayments	1,132,634	825,800
Other current assets	8,616,354	9,049,283
Total current assets	30,275,972	35,789,579
Non-current assets:		
Property, plant and equipment	34,304,365	33,816,691
Less accumulated depreciation	(19,967,699)	(17,906,571)
Property, plant and equipment - net	14,336,666	15,910,120
Other non-current assets	2,920,000	2,920,000
Total non-current assets	17,256,666	18,830,120
Total assets	47,532,638	54,619,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	480,523	974,754
Accrued expenses	1,640,982	2,329,440
Borrowings	498,890	0
Other liability	1,066,813	0
Deferred revenue	1,567,562	957,916
Employee entitlements provision	1,241,710	1,160,177
Total current liabilities	6,496,480	5,422,287
Non-current liabilities:		
Asset retirement obligations	2,600,000	2,549,928
Employee entitlements provision	129,206	147,662
Long term secured loan	17,499,194	15,857,966
Other liability	1,066,813	0
Deferred revenue	0	957,916
Total non-current liabilities	21,295,213	19,513,472
Total liabilities	27,791,693	24,935,759
Commitments and contingencies	0	0
Stockholders' equity:		
Preferred stock, US$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2014 (2013: nil)		
Common stock, US$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 175,610,978 shares in 2014 (2013: 175,600,605)	17,561	17,560
Additional paid-in capital	94,328,182	94,955,051
Accumulated deficit	(64,990,359)	(53,356,552)
Current year loss	(9,316,127)	(11,633,807)
Accumulated other comprehensive income	(298,312)	(298,312)
Total stockholders' equity	19,740,945	29,683,940
Total liabilities and stockholders' equity	47,532,638	54,619,699

See accompanying notes to the financial statements

Universal Biosensors, Inc.

Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Revenue			
Revenue from products	$ 215,486	$ 10,170,804	$ 19,368,745
Revenue from services	9,314,198	4,918,868	10,277,698
Total revenue	9,529,684	15,089,672	29,646,443
Operating costs & expenses			
Cost of goods sold	313,374	10,455,567	17,987,049
Cost of services	242,453	1,187,244	669,042
Total cost of goods sold & services	555,827	11,642,811	18,656,091
Contribution from products & services	8,973,857	3,446,861	10,990,352
Other operating costs & expenses			
Research and development	17,136,051	15,483,902	13,482,459
General and administrative	5,623,748	6,200,786	6,790,524
Total operating costs & expenses	22,759,799	21,684,688	20,272,983
Loss from operations	(13,785,942)	(18,237,827)	(9,282,631)
Other income/(expense)			
Interest income	260,904	499,970	437,171
Interest expense	(15,905)	(22,640)	(29,263)
Financing costs	(2,646,092)	(797,126)	0
Patent fees	(2,133,626)	0	0
Other	9,004,534	6,923,816	(256,499)
Total other income	4,469,815	6,604,020	151,409
Net loss before tax	(9,316,127)	(11,633,807)	(9,131,222)
Income tax benefit/(expense)	0	0	0
Net loss	$ (9,316,127)	$ (11,633,807)	$ (9,131,222)
Earnings per share			
Basic and diluted net loss per share	(0.05)	(0.07)	(0.06)
Other comprehensive loss, net of tax:			
Unrealized gain on derivative instruments	0	0	0
Reclassification for gains realized in net income	0	0	(83,339)
Other comprehensive (loss)/gain	0	0	(83,339)
Comprehensive loss	(9,316,127)	(11,633,807)	(9,214,561)

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income

	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	(9,131,222)	0	(9,131,222)
Other comprehensive loss	0	0	0	0	(83,339)	(83,339)
Issuance of ordinary shares at A$0.90 per share, net of issuance costs	14,626,713	1,463	12,522,661	0	0	12,524,124
Exercise of stock options issued to employees	115,240	11	24,075	0	0	24,086
Shares issued to employees	77,945	8	84,952	0	0	84,960
Stock option expense	0	0	930,924	0	0	930,924
Balances at December 31, 2012	173,959,863	17,396	93,009,607	(53,356,552)	(298,312)	39,372,139
Net loss	0	0	0	(11,633,807)	0	(11,633,807)
Issuance of warrants	0	0	923,104	0	0	923,104
Exercise of stock options issued to employees	1,497,025	150	360,448	0	0	360,598
Shares issued to employees	143,717	14	70,958	0	0	70,972
Stock option expense	0	0	590,934	0	0	590,934
Balances at December 31, 2013	175,600,605	17,560	94,955,051	(64,990,359)	(298,312)	29,683,940
Net loss	0	0	0	(9,316,127)	0	(9,316,127)
Exercise of stock options issued to employees	8,333	0	0	0	0	0
Shares issued to employees	2,040	1	999	0	0	1,000
Stock option expense	0	0	(627,868)	0	0	(627,868)
Balances at December 31, 2014	175,610,978	17,561	94,328,182	(74,306,486)	(298,312)	19,740,945

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Cash flows from operating activities provided by/(used in):			
Net loss	(9,316,127)	(11,633,807)	(9,131,222)
Adjustments to reconcile net profit/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	2,512,946	2,497,345	2,637,141
Share based payments expense	(627,868)	590,934	930,924
Loss on fixed assets disposal	16,195	4,544	9,766
Unrealized foreign exchange losses	718,336	114,568	0
Financing costs - amortization of warrants	181,779	5,994	0
Change in assets and liabilities:			
Inventory	(393,243)	3,598,030	17,163
Accounts receivables	(1,631,838)	404,418	2,606,895
Prepaid expenses and other current assets	126,095	(10,824,351)	(26,632)
Deferred revenue	(348,270)	257,755	(1,437,125)
Employee entitlements	64,077	98,841	202,798
Accounts payable and accrued expenses	3,284,049	(1,742,847)	889,535
Net cash used in operating activities	(5,413,869)	(16,628,576)	(3,300,757)
Cash flows from investing activities:			
Proceeds/(purchases) from sale of investment securities	7,941	0	0
Purchases of property, plant and equipment	(955,327)	(159,437)	(687,245)
Net cash used in investing activities	(947,386)	(159,437)	(687,245)
Cash flows from financing activities:			
Gross proceeds from share issue	0	0	13,164,042
Transaction costs on share issue	0	0	(639,918)
Proceeds from borrowings	1,051,662	17,676,500	921,725
Repayment of borrowings	(552,772)	(767,471)	(921,725)
Borrowing costs	(2,291,341)	(929,997)	0
Proceeds from stock options exercised	0	360,598	24,086
Net cash provided by/(used in) financing activities	(1,792,451)	16,339,630	12,548,210
Net increase/(decrease) in cash and cash equivalents	(8,153,706)	(448,383)	8,560,208
Cash and cash equivalent at beginning of period	23,742,422	23,649,417	15,089,209
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	741,113	541,388	0
Cash and cash equivalents at end of period	16,329,829	23,742,422	23,649,417

See accompanying notes to the financial statement

(1) Basis of Presentation

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

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

(2) Summary of Significant Accounting Policies

Principles of Consolidation

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

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 consists 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.

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 unrealised gain or loss on the derivative financial instrument is recognized directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

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

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

Derivative Instruments and Hedging Activities

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. For years ended December 31, 2012, 2013 and 2014, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives are based on the market approach using observable market inputs, such as forward rates and incorporate non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2.

Inventory

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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Raw materials	351,007	4,169	2,925,482
Work in progress	46,443	38	120,596
Finished goods	0	0	556,159
	397,450	4,207	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 collectibility, generally focusing on those accounts that are past due. The current year expense to adjust the allowance for doubtful accounts, if any, is recorded within general and administrative expenses in the consolidated statements of comprehensive income. Account balances are charged against the allowance when it is probable the receivable will not be recovered.

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Accounts receivable	3,799,705	2,167,867	2,282,888
Allowance for doubtful debts	0	0	0
	3,799,705	2,167,867	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.

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.

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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Research	1,194,323	1,829,411	1,511,772
Development	15,941,728	13,654,491	11,970,687
Research and development expenses	17,136,051	15,483,902	13,482,459

Income Taxes

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

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

deferred tax assets to the amount that is more likely than not to be realized. A reconciliation of the valuation and qualifying accounts is attached as Schedule ii.

We are subject to income taxes in the United States and Australia. U.S. federal income tax returns up to and including the 2013 financial year has been filed. Internationally, consolidated income tax returns up to and including the 2013 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:

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Opening balance at January 1	2,549,928	2,351,464	2,166,691
Accretion expense	50,072	198,464	184,773
Ending balance at December 31	2,600,000	2,549,928	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.
- Cost approach – based on the cost to acquire or construct comparable assets less an allowance for functional and/or economic obsolescence.
- Income approach – based on the present value of a future stream of net cash flows

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

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

Impairment of Long-Lived Assets

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

cash flows, an impairment loss is measured by comparing the carrying value of the asset to its fair value, based on discounted cash flows.

Australian Goods and Services Tax (GST)

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

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

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

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

Management has concluded that the core operations of the Company are expected to be the research and development activities, commercial manufacture of approved medical or testing devices and the provision of services. The Company's ultimate goal is to utilize the underlying technology and skill base for the development of a marketable product that the Company will manufacture. The Company considers revenue from the sales of

products, revenue from services and the income received from milestone payments indicative of its core operating activities or revenue producing goals of the Company, and as such have accounted for this income as "revenues".

Master Services and Supply Agreement

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

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

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.

Collaboration Agreement

On September 9, 2011 the Company entered into a Collaboration Agreement with Siemens to develop coagulation related products for hospital point-of-care and ambulatory care coagulation markets. In addition to an up-front, non-refundable payment of A$2,961,245 (equivalent to US$3 million), the Collaboration Agreement contained a further 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 three as of December 31, 2014:

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

- 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.

Of the total amount of A$4,230,349 (equivalent to US$4,285,714) recognized as revenue in 2012, 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.

Research and development tax incentive income

Research and development tax incentive income is recognized when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured. The research and development tax incentive is one of the key elements of the Australian Government's support for Australia's innovation system and is supported by legislative law primarily in the form of the Australian Income Tax Assessment Act 1997 as long as eligibility criteria are met. Generally speaking, entities which are an R&D entity involved in eligible R&D activities with an aggregated turnover of less than A$20 million are eligible to claim research and development tax incentive income. In accordance with SEC Regulation S-X Article 5-03, the research and development incentive income has been recognized as non-operating income as it is not indicative of the core operating activities or revenue producing goals of the Company.

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

For the 2014 and 2013 financial year, the Company has recorded research and development tax incentive income of A$9,935,083 and A$6,279,954, respectively under the caption "Other" in the consolidated condensed statements of comprehensive income. There was no research and development tax incentive income recognized in 2012.

Of the A$9,935,083 research and development tax incentive recorded in other income for the year ended December 31, 2014, A$1,735,083 relates to research and development tax incentive income the Company received from the Australian Government for the year ended December 31, 2013 following a change in the original estimate. The change in estimate was due to the fact the research and development tax incentives were introduced in 2011 and were dependent on the level of qualifying research and development expenditure and as such conservative risk adjustments were made in the estimate in the year ended December 31, 2013, the first year in which the Company became eligible for this incentive.

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$918,479), A$643,862 and (A$232,458) in each of the years ended December 31, 2014, 2013 and 2012, respectively.

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

- assets and liabilities for each balance sheet item reported are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement 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 December 31, 2014 are as follows:

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

Clinical Trial Expenses

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

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

Leased Assets

All of the Company's leases for the years ended December 31, 2014, 2013 and 2012 are considered operating leases. The costs of operating leases are charged to the statements of comprehensive income on a straight-line basis over the lease term.

Stock-based Compensation

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

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

Employee Benefit Costs

The Company contributes to standard defined contribution superannuation funds on behalf of all employees. This contribution amount, which prior to July 1, 2013 was equal to 9% of each employee's salary, was increased by law to 9.25% with effect from July 1, 2013 and further increased to 9.50% from July 1, 2014 of each such employee's salary. Superannuation is a compulsory savings program whereby employers are required to pay a portion of an employee's remuneration to an approved superannuation fund that the employee is typically not able to access until they 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.

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.

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

	Before-Tax Amount A$	Tax (Expense)/ Benefit A$	Net-of-Tax Amount A$
2014			
Unrealized loss on derivative instruments	0	0	0
Reclassification for gains realised in net income	0	0	0
Other comprehensive loss	0	0	0
2013			
Unrealized loss on derivative instruments	0	0	0
Reclassification for gains realised in net income	0	0	0
Other comprehensive loss	0	0	0
2012			
Unrealized loss on derivative instruments	0	0	0
Reclassification for gains realised in net income	83,339	0	83,339
Other comprehensive loss	83,339	0	83,339

Recent Accounting Pronouncements

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

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

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

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

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

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

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

- Full retrospective application — Retrospective application would take into account the requirements in ASC 250 (with certain practical expedients).
- Modified retrospective application — Under the modified approach, an entity recognizes "the cumulative effect of initially applying the ASU as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application" (revenue in periods

presented in the financial statements before that date is reported under guidance in effect before the change). Using this approach, an entity applies the guidance in the ASU to existing contracts (those for which the entity has remaining performance obligations) as of, and new contracts after, the date of initial application. The ASU is not applied to contracts that were completed before the effective date (i.e., an entity has no remaining performance obligations to fulfill). Entities that elect the modified approach must disclose an explanation of the impact of adopting the ASU, including the financial statement line items and respective amounts directly affected by the standard's application.

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

(3) Commitments and Contingent Liabilities

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

Operating Leases

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

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

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

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2014 are:

	A$
Less than 1 year	549,193
1 – 3 years	1,155,722
3 – 5 years	755,092
More than 5 years	0
Total minimum lease payments	2,460,007

Rent expense was A$551,119, A$597,512 and A$594,118 for the fiscal years ended December 31, 2014, 2013 and 2012, respectively.

Government research grants

On October 1, 2010, Universal Biosensors Pty Ltd was awarded a grant of A$250,000 by the State of Victoria to assist in the upgrade of our manufacturing facility to ultimately support the production of strips for a new point of care test. These payments are subject to the achievement of milestones which include capital expenditure by Universal Biosensors Pty Ltd of predetermined minimum amounts. The State of Victoria may require Universal Biosensors Pty Ltd to refund any amounts paid under the grant together with interest should Universal Biosensors Pty Ltd fail to complete the upgrade within a stipulated timeframe or fails to fulfill its commitments towards the upgrade. The State of Victoria may also withhold, suspend, cancel or terminate any payment or payments upon a failure to comply with obligations or if Universal Biosensors Pty Ltd chooses not to proceed with these initiatives or it becomes insolvent. The total amount received under the Victorian State Government Grant during 2014 was A$0 (2013: A$0, 2012: A$75,000). This grant has been recognized against the acquisition cost of the related plant and equipment.

Guarantees

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

(4) Income Taxes

The Company is subject to income tax in Australia and is required to pay taxes on its Australian profits. As provided under the Australian income tax laws, the Company and its wholly owned resident subsidiary have formed a tax-consolidated group. Universal Biosensors, Inc. is required to lodge U.S. federal income tax returns. It currently is in a tax loss situation.

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

	Years ended December 31,					
	2014		2013		2012	
	A$	%	A$	%	A$	%
Profit/(loss) before income taxes	(9,316,127)		(11,633,807)		(9,131,222)	
Computed by applying income	(2,794,838)	30	(3,490,142)	30	(2,739,367)	30
Research & development incentive	2,502,701	(27)	3,613,149	(31)	(1,268,040)	14
Disallowed expenses/(income):						
Share based payment	(188,360)	2	177,280	(2)	279,278	(3)
Other	3,136	0	6,697	0	8,425	0
Change in valuation allowance	477,361	(5)	(306,984)	3	3,719,704	(41)
Income tax expense/(benefit)	0	0	0	0	0	0

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

	As of December 31,		
	2014 A$	2013 A$	2012 A$
Foreign	-	3	1,523
Domestic (Australia)	(9,316,127)	(11,633,810)	(9,132,745)
	(9,316,127	(11,633,807	(9,131,222

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

	As of December 31,	
	2014 A$	2013 A$
Deferred tax assets:		
Operating loss carry forwards	12,514,104	18,788,802
Unamortized capital raising cost	(1,366,548)	115,185
Depreciation and amortization	1,652,825	1,294,282
Asset retirement obligations	345,519	764,978
Employee entitlements	401,074	394,181
Other	3,489,477	2,055,885
Total deferred tax assets	17,036,451	23,413,313
Valuation allowance for deferred tax assets	(17,036,451)	(23,413,313)
Net deferred tax asset	0	0

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

At December 31, 2014 the Company has A$41,713,681 (A$42,964,339 at December 31, 2013) of accumulated tax losses available for carry forward against future earnings, which under Australian tax laws do not expire but may not be available under certain circumstances.

(5) Employee Incentive Schemes

(a) Stock Option Plan

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

An option holder is not permitted to participate in a bonus issue or new issue of securities in respect of an option held prior to the issue of shares to the option holder pursuant to the exercise of an option. If the Company changes the number of issued shares through or as a result of any consolidation, subdivision, or similar reconstruction of the issued capital of the Company, the total number of options and the exercise price of the options (as applicable) will likewise be adjusted. Options granted in 2012, 2013 and 2014 were 769,500, 654,000, and 152,000 respectively.

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

	Grant Date								
	Aug-14	**Dec-13**	**Dec-13**	**Aug-13**	**Mar-13**	**Nov-12**	**Nov-12**	**Sep-12**	**Mar-12**
Exercise Price (A$)	0.17	Nil	0.49	0.71	0.79	Nil	1.09	0.73	0.75
Share Price at Grant Date (A$)	0.17	0.49	0.49	0.71	0.79	1.09	1.09	0.73	0.75
Volatility	71%	63%	63%	64%	65%	66%	66%	67%	67%
Expected Life (years)	7	7	7	7	7	7	7	7	7
Risk Free Interest Rate	3.13%	3.82%	3.82%	3.54%	3.37%	2.82%	2.82%	3.00%	3.78%
Fair Value of Option (A$)	0.10	0.49	0.28	0.41	0.45	1.09	0.63	0.42	0.44

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

Share Price and Exercise Price at Valuation Date

With the exception of ZEPOs, the value of all other options granted 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.

Stock option activity during the current period is as follows:

	Number of shares	Weighted average issue price A$
Balance at December 31, 2013	10,606,099	1.07
Granted	152,000	0.10
Exercised	(8,333)	0.00
Lapsed	(1,416,330)	1.04
Balance at December 31, 2014	9,333,436	1.06

At December 31, 2014, the number of options exercisable was 8,611,392 (2013: 8,904,217 and 2012: 9,264,906). At December 31, 2014, total stock compensation expense recognized in income statement was (A$627,868) (2013: A$590,934 and 2012: A$930,924).

The following table represents information relating to stock options outstanding under the plans as of December 31, 2014:

	Options Outstanding		Options
Exercise Price A$	Shares	Weighted average remaining life in years	Exercisable Shares
$0.35	380,603	1	380,603
$1.18	549,000	2	549,000
$1.20	525,000	3	525,000
$0.89	665,000	3	665,000
$0.70	146,000	4	146,000
$0.50	8,000	4	8,000
$0.00	50,001	4	50,001
$0.94	768,667	4	768,667
$0.00	388,334	4	388,334
$1.72	1,235,000	5	1,155,000
$1.60	50,000	2	50,000
$1.58	226,000	3	226,000
$0.00	91,667	3	91,667
$1.37	263,000	3	263,000
$1.38	2,300,000	3	2,300,000
$1.00	66,000	4	66,000
$0.89	240,000	4	240,000
$0.00	100,000	4	100,000
$0.75	96,664	4	96,664
$0.73	86,000	5	57,334
$1.09	287,500	5	191,640
$0.00	137,500	5	91,664
$0.79	24,000	5	16,000
$0.71	30,000	6	10,000
$0.49	307,500	6	102,486
$0.00	220,000	6	73,332
$0.17	92,000	7	0
	9,333,436		8,611,392

The table below sets forth the number of employee stock options exercised and the number of shares issued in the period from December 31, 2012. We issued these shares in reliance upon exemptions from registration under Regulation S under the Securities Act of 1933, as amended.

Period Ending	Number of Options Exercised and Corresponding Number of Shares Issued	Weighted Average Exercise Price (A$)	Proceeds Received (A$)
2012	115,240	0.25	24,086
2013	1,497,025	0.20	360,598
2014	8,333	0.00	0

As of December 31, 2014, there was A$125,758 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$
2015	100,210
2016	24,642
2017	906
	125,758

The aggregate intrinsic value for all options outstanding as at December 31, 2014 was zero.

(b) Restricted Share Plan

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

The table below sets forth the restricted shares issued by the Company since 2012:

	Number of Restricted Shares Issued	Market Value of Restricted Shares Issued (A$)
November, 2012	77,945	84,960
May, 2013	917	1,000
December, 2013	142,800	69,972
June, 2014	2,040	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, 2013	260,801	0.72
Granted	2,040	0.49
Release of restricted shares	(28,354)	0.71
Balance at December 31, 2014	234,487	0.72

(6) Related Party Transactions

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

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

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

Messrs Denver and Jane are directors of the Company and SpeeDx. Talu Ventures Pty Ltd, of which Mr. Jane is a director, is a fund manager of a fund which holds approximately 33% of the issued shares in SpeeDx. Until September 27, 2013, PFM Cornerstone Limited held approximately 6% of our shares (this holding has since decreased to approximately 1% of our shares), and PFM Cornerstone Limited also holds approximately 33% of the issued shares in SpeeDx. Messrs Denver and Hanley are directors of the Company and PFM Cornerstone Limited.

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, who resigned as a director of the Company in August 2013, 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.

(7) Financial Instruments

Financial Assets

	Years Ended December 31,		
	2014	2013	2012
	A$		A$
Financial assets:			
Cash and cash equivalents	16,329,829	23,742,422	23,649,417
Accounts receivables	3,799,705	2,167,867	2,282,888
Financial instruments	0	0	0
Total financial assets	20,129,534	25,910,289	25,932,305
Debt:			
Short term borrowings	498,890	0	0
Long term secured loan	17,499,194	15,857,966	0
Net financial assets	2,131,450	10,052,323	25,932,305

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

We regularly review all our financial assets for impairment. There were no impairments recognized in 2014, 2013 and 2012.

Derivative Instruments and Hedging Activities

We had no outstanding contracts as at December 31, 2014, 2013 and 2012, respectively. During the years ended December 31, 2014 and 2013, we recognized gains of nil. During the year ended December 31, 2012, we recognized losses of A$83,339 which was recorded in earnings for the year ended December 31, 2012. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the years ended December 31, 2014, 2013 and 2012. For further details, see Notes to Consolidated Financial Statements – Note 2, *Summary of Significant Accounting Policies.*

(8) Property, Plant and Equipment

	As of December, 31	
	2014	2013
	A$	A$
Plant and equipment	23,500,587	19,516,798
Leasehold improvements	8,860,746	8,790,395
Capital work in process	1,943,032	5,509,498
	34,304,365	33,816,691
Accumulated depreciation	(19,967,699)	(17,906,571)
Property, plant & equipment, net	14,336,666	15,910,120

Capital work in process relates to assets under construction and comprises primarily specialized manufacturing equipment. Legal right to the assets under construction rests with the Company. The amounts capitalized for capital work in process represent the percentage of expenditure that has been completed, and once the assets are placed into service, the Company begins depreciating the respective assets. The accumulated amortisation of capitalised leasehold improvements for the fiscal years ended December 31, 2014, 2013 and 2012 was A$7,096,926, A$6,633,104, and A$6,001,351, respectively.

Depreciation expense was A$2,512,946, A$2,497,345, and A$2,637,141 for the fiscal years ended December 31, 2014, 2013 and 2012, respectively.

(9) Accrued Expenses

Accrued expenses consist of the following:

	As of December, 31	
	2014	2013
	A$	A$
Legal, tax and accounting fees	269,609	461,548
Salary and related costs	402,839	1,036,125
Research and development materials	689,219	687,335
Other	279,315	144,432
	1,640,982	2,329,440

(10) Stockholders' Equity - Common Stock

Holders of common stock are generally entitled to one vote per share held on all matters submitted to a vote of the holders of common stock. At any meeting of the shareholders, the presence, in person or by proxy, of the majority of the outstanding stock entitled to vote shall constitute a quorum. Except where a greater percentage is required by the Company's amended and restated certificate of incorporation or by-laws, the affirmative vote of the holders of a majority of the shares of common stock then represented at the meeting and entitled to vote at the meeting shall be sufficient to pass a resolution. Holders of common stock are not entitled to cumulative voting rights with respect to the election of directors, and the common stock does not have pre-emptive rights.

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

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

(11) Retirement Benefits

Universal Biosensors Pty Ltd contributes to standard defined contributions superannuation funds on behalf of all employees. This contribution amount, which prior to July 1, 2013 was equal to 9% of each employee's salary, was increased by law to 9.25% and 9.50% of each such employee's salary from July 1, 2014 and July1, 2015 respectively. The Company permits employees to choose the superannuation fund into which the contributions are paid, provided the fund is appropriately registered.

Universal Biosensors Pty Ltd contributed A$821,365, A$901,589, and A$879,552 for the fiscal years ended December 31, 2014, 2013 and 2012, respectively.

(12) Net Loss per Share

Basic net loss per ordinary share was computed by dividing the net loss applicable to common stock by the weighted-average number of common stock outstanding during the period. Options granted to employees under the Universal Biosensors Employee Option Plan are considered to be potential ordinary shares for the purpose of calculating diluted net loss per share. However, all these were not included in the calculation of diluted net loss per share in the year when the Group made a net loss as the effect of including them is anti-dilutive.

	Years Ended December 31,		
	2014	2013	2012
Weighted average shares used as denominator in calculating:			
Basic & diluted net loss per share	175,608,634	174,428,259	160,417,411

(13) Guarantees and Indemnifications

The certificate of incorporation and amended and restated by-laws of the Company provide that the Company will indemnify officers and directors and former officers and directors in certain circumstances, including for expenses, judgments, fines and settlement amounts incurred by them in connection with their services as an officer or director of the Company or its subsidiaries, provided that such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Company.

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

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

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

No liability has arisen under these indemnities as at December 31, 2014.

(14) Segments

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

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

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

(15) Deed of Cross Guarantee

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

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

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

(16) Borrowings

Future maturities, interest and other payments under the Company's long term secured loan pursuant to the credit agreement as of December 31, 2014 is as follows:

	December 31, 2014		December 31, 2013	
	US$	A$	US$	A$
2014	0		2,532,500	
2015	2,349,167		1,749,167	
2016	2,032,500		1,732,500	
2017	1,732,500		1,732,500	
2018	16,732,500		16,732,500	
Thereafter	0		0	
Total minimum payments	22,846,667		24,479,167	
Less amount representing interest and other fees	(7,846,667)		(9,479,167)	
Gross balance of long term debt	15,000,000		15,000,000	
Less fair value of warrants recorded within loan (a)	(815,655)		(815,655)	
Plus amortization of warrants	168,494		5,363	
Total carrying value	14,352,839	17,499,194	14,189,708	15,857,966
Less current portion	0	0	0	0
Total carrying value, non-current portion	14,352,839	17,499,194	14,189,708	15,857,966

(a) The warrants issued in December 2014 had a fair value of US$815,655 as of December 31, 2014, and are included in long term debt carrying value.

Athyrium Credit Agreement

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

- US$5 million available within 30 days after the end of any quarter ending on or before July 31, 2015, conditional upon UBS satisfying certain conditions precedent including that in the immediately preceding quarter, UBS achieves quarterly service fee revenues from the sale of the OneTouch® Verio® blood glucose strips ("Verio QSFs") plus coagulation manufacturing revenues of not less than US$1,800,000 in the aggregate; and
- US$5 million available within 30 days after the end of any quarter ending on or before July 31, 2015, conditional upon UBS satisfying certain conditions precedent including that in the immediately preceding quarter, UBS achieves Verio QSF plus coagulation manufacturing revenues of not less than US$2,500,000 in the aggregate.

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

Voluntary prepayments of the term loans are not permitted prior to the second anniversary of the Closing Date, except in the event of a change of control of a Transaction Party. After the second anniversary, UBS can make voluntary repayments in minimum principal amounts of US$2,500,000 together with interest, plus the premium described below. UBS must make mandatory prepayments in certain prescribed circumstances, including in the event of raising additional debt financing, a sale or transfer of assets other than in certain circumstances and in the event of other specified extraordinary receipts. Extraordinary events include cash received or paid other than in the ordinary course of business, such as tax refunds (other than GST and R&D tax rebates), LifeScan lump sum fee payments and Siemens termination fees. In such events, UBS must prepay to the Lenders 100% of the net cash proceeds received. In the event of any prepayment (1) on or prior to the second anniversary of the Closing Date with respect to any obligations under the Credit Agreement other than the Delayed Draw Loans, or (2) on or prior to June 19, 2016 with the respect to the Delayed Draw Loans, UBS must also pay a prepayment premium of 20% of the principal of such prepayment due and payable on the applicable date. In the event of any prepayment (1) after the

second anniversary of the Closing Date with respect to any obligations under the Credit Agreement other than the Delayed Draw Loans, or (2) after June 19, 2016 with the respect to the Delayed Draw Loans, UBS must pay a prepayment premium commencing at 15% of the principal of such prepayment due and payable on the applicable date and reducing pro-rata on a monthly basis until the Maturity Date (as defined below).

Unless the facility is otherwise terminated earlier pursuant to the terms of the Credit Agreement, the Borrower is required to repay the outstanding principal amount of the loans drawn down, together with all accrued and unpaid interest thereon and all other obligations on December 19, 2018 (the "Maturity Date").

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

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

As further described in *Note 17*, pursuant to the Athyrium Credit Agreement, UBS issued to the lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI's common stock in the form of CDIs at a price of A$1.00 per share (the "Exercise Price"), which represents a 117% premium over the closing price of UBI's common stock on December 19, 2013. The warrants are immediately exercisable and have a term of seven years.

Other

In December 2014, UBS entered into an arrangement with Elantis Premium Funding Ltd to fund the Group's 2015 insurance premium. The total amount financed is A$498,890 at inception. Interest is charged at a fixed rate of 2.84% per annum and the short-term borrowing will be fully repaid by December 2015. The short-term borrowing is secured by the insurance premium refund.

(17) Warrants

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

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

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

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

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

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

(18) Restricted Cash

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

	Years Ended December 31,		
	2014	**2013**	**2012**
	A$	**A$**	**A$**
Financial covenant pursuant to the credit agreement	2,600,000	2,600,000	0
Letter of credit issued in favour of a supplier	0	575,000	575,000
Collateral for facilities	320,000	320,000	320,000
	2,920,000	3,495,000	895,000

Financial covenant pursuant to the credit agreement and collateral for facilities are recorded under the caption "Other non-current assets" in the consolidated balance sheets. Letter of credit issued in favour of a supplier is recorded under the caption "Other current assets" in the consolidated balance sheets.

Universal Biosensors, Inc.

Schedule ii – Valuation and Qualifying Accounts
(for the years ended December 31, 2012, 2013 and 2014)

	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at end of Period
	A$	A$	A$	A$	A$
Year ended December 31, 2012					
Deferred income tax valuation allowance	18,356,448	3,719,704	(38,142)	0	22,038,010
Year ended December 31, 2013					
Deferred income tax valuation allowance	22,038,010	(306,984)	1,682,287	0	23,413,313
Year ended December 31, 2014					
Deferred income tax valuation allowance	23,413,313	477,361	(6,854,223)	0	17,036,451