



23 July 2015

Revenue growth of 160% on prior year driving improved operating results

- Total revenue of \$7.5m in 1HY15, up 160% on \$2.9m in 1HY14
- Revenue from Quarterly Service Fees – generated by sales of blood glucose test strips – increased by 153% to \$6.5m in 1HY15 from \$2.6m in 1HY14
- Net R&D of \$5.6m in 1HY15, up 2% on \$5.5m in 1HY14
- Net loss of \$4.1m in 1HY15, a significant improvement on the net loss of \$7.0m in 1HY14
- Cash balance of \$10.7m and total long term borrowings of US\$15m on 30 June 2015 - additional R&D tax refund in cash of \$8.2m received on 9 July.

Universal Biosensors (ASX:UBI) today released its financial results for the first half of 2015. In 1HY15, total revenue increased by 160% to \$7.5m, up from \$2.9m in 1HY14. UBI now generates revenue from two products in market – the Quarterly Service Fees from sales of OneTouch Verio blood glucose test strips, and also the manufacturing of test strips for Siemens Xprecia Stride™ Coagulation Analyzer.

In 1HY15, revenue from Quarterly Service Fees increased by 153% to \$6.5m, up from \$2.6m in 1HY14. Under the agreement with LifeScan, UBI receives a service fee for each Verio strip sold by LifeScan of US\$1.25c for the first 500m strips sold in any given year, and then US\$0.75c for each subsequent strip sold for the remainder of that year. The revenue in 1HY15 reflects the higher per strip rate of US\$1.25c, but it is expected that the switch to the new lower rate of US\$0.75c per strip will occur at some point in 2H15, for the remainder of the year. It is important to note that the 500m threshold is reset and the service fee returns to US\$1.25c at the start of each year.

In 1HY15, revenue from products generated \$416K, following the limited European release of the Siemens Xprecia Stride™ Coagulation Analyzer in December 2014 and the full commercial launch in May 2015.

The Company continues to advance new products for the coagulation testing market. Net R&D in 1HY15 was \$5.6m, up 2% on \$5.5M in 1HY14. This increased expenditure primarily reflects development expenses for two further Siemens coagulation tests and the UBI-owned PT-INR test for decentralised settings.

Paul Wright, CEO of Universal Biosensors, said: *“The operating cash burn for 1HY15 was \$3.3m, down 41% from \$5.6m in 1HY14. The accelerated growth in Quarterly Service Fees has significantly improved our operating cash position in 1HY15, as the blood glucose revenues fall straight to the bottom line.”*

The net loss of \$4.1m in 1HY15 was an improvement on the net loss of \$7.0m in 1HY14. This stronger operating result primarily reflects the accelerated revenue growth from both Quarterly Service Fees and manufacturing. General and administrative expenses were flat at \$3.1m in 1HY15.

As at 30 June 2015, the Company had a cash balance of \$10.7m. On 9 July, a further \$8.2m was received for the R&D tax refund. UBI has an outstanding debt facility of US\$15m which is repayable with a bullet payment by the end of 2018.

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Universal Biosensors

Ends

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About Universal Biosensors

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

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

Forward-Looking Statements

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

Appendix 4D

Half Year report

Universal Biosensors, Inc.
ARBN 121 559 993

Results for announcement to the market

(All numbers in Australian Dollars unless stated otherwise)

1. Reporting periods

Financial year ended (‘Current period’)	Financial year ended (‘Previous corresponding period’)
June 30, 2015	June 30, 2014

2. Results for announcement to the market

					June 30, 2015 \$7,460,806	June 30, 2014 \$2,865,932
Revenues from ordinary activities	Up	160%	to	\$7,460,806		
Loss from ordinary activities after tax attributable to members	Down	41%	to	\$4,127,593	\$4,127,593	\$6,952,647
Loss for the period attributable to members	Down	41%	to	\$4,127,593	\$4,127,593	\$6,952,647

Other key results

	3 months ended June 30,			6 months ended June 30,		
	2015 (\$'M)	2014 (\$'M)	Change	2015 (\$'M)	2014 (\$'M)	Change
Revenue from products	0.3	0.0	Up \$0.3M	0.4	0.0	Up \$0.4M
Revenue from services (excluding Quarterly Service Fees)	0.4	0.1	Up 185%	0.5	0.3	Up 83%
Quarterly Service Fees	3.6	1.4	Up 162%	6.5	2.6	Up 153%
Total revenue	4.3	1.5	Up 187 %	7.5	2.9	Up 160 %
Cost of goods sold & services	0.4	0.0	Up 6585%	0.5	0.0	Up 2217%
Contribution from products & services	3.9	1.5	Up 159 %	6.9	2.8	Up 144 %
Research & development expenses (net of R&D tax incentive income recorded)	3.0	2.5	Up 17%	5.6	5.5	Up 2%
General & administrative expenses	1.5	1.7	Down 11%	3.1	3.1	Up 2%
Net loss after tax	-1.3	-3.4	Down 62 %	-4.1	-7.0	Down 41 %
Net decrease in cash	4.1	3.6	Up 14 %	5.6	7.9	Down 29 %

3. Net tangible asset backing

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	9 cents / share	13 cents / share

4. Controlled entities

N/A

5. Dividends

There were no dividends declared or paid during the period.

6. Dividend Reinvestment Plans

N/A

7. Associates and Joint Ventures

N/A

8. Foreign entities

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

9. Review Report

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



Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying consolidated condensed balance sheet of Universal Biosensors, Inc. and its subsidiary as of June 30, 2015, and the related consolidated condensed statements of comprehensive income for the three-month and six-month periods ended June 30, 2015 and June 30, 2014, the consolidated condensed statements of changes in stockholders' equity and comprehensive income for the six-month periods ended June 30, 2015 and June 30, 2014 and the consolidated condensed statement of cash flows for the six-month periods ended June 30, 2015 and June 30, 2014. These interim financial statements are the responsibility of the Company's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated condensed balance sheet as of December 31, 2014, and the related consolidated condensed statements of comprehensive income, the consolidated condensed statement of changes in stockholders' equity and comprehensive income and the consolidated condensed statement of cash flows for the year then ended (not presented herein), and in our report dated March 12, 2015, we expressed an unqualified opinion on those consolidated condensed financial statements. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of June 30, 2015, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written over the printed name of the firm.

PricewaterhouseCoopers
Sydney
23 July 2015

PricewaterhouseCoopers, ABN 52 780 433 757

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

Commission File Number: 000-52607

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

Delaware
(State or other jurisdiction of
incorporation or organization)

98-0424072
(I.R.S. Employer
Identification Number)

Universal Biosensors, Inc.
1 Corporate Avenue,
Rowville, 3178, Victoria
Australia
(Address of principal executive offices)

Not Applicable
(Zip Code)

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

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

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

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

Large Accelerated Filer ☐

Accelerated Filer ☐

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

Smaller reporting company ☒



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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
175,897,880 shares of Common Stock, U.S.\$0.0001 par value, outstanding as of July 23, 2015.

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



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UNIVERSAL BIOSENSORS
FORM 10-Q - 2ND QTR,

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Page 1 of 1

Universal Biosensors, Inc.

Item 1 Financial Statements**Consolidated Condensed Balance Sheets (Unaudited)**

	June 30, 2015 AS	December 31, 2014 AS
ASSETS		
Current assets:		
Cash and cash equivalents	10,720,055	16,329,829
Inventories, net	656,610	397,450
Accounts receivable	3,971,045	3,799,705
Prepayments	840,206	1,132,634
Other current assets	12,753,827	8,616,354
Total current assets	28,941,743	30,275,972
Non-current assets:		
Property, plant and equipment	35,042,517	34,304,365
Less accumulated depreciation	(21,308,703)	(19,967,699)
Property, plant and equipment - net	13,733,814	14,336,666
Other non-current assets	2,920,000	2,920,000
Total non-current assets	16,653,814	17,256,666
Total assets	45,595,557	47,532,638
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	1,319,728	480,523
Accrued expenses	1,687,736	1,640,982
Borrowings	108,011	498,890
Other liability	1,139,323	1,066,813
Deferred revenue	558,036	1,567,562
Employee entitlements provision	1,392,707	1,241,710
Total current liabilities	6,205,541	6,496,480
Non-current liabilities:		
Asset retirement obligations	2,600,000	2,600,000
Employee entitlements provision	151,485	129,206
Long term secured loan	18,793,925	17,499,194
Other liability	1,139,323	1,066,813
Deferred revenue	1,116,071	0
Total non-current liabilities	23,800,804	21,295,213
Total liabilities	30,006,345	27,791,693
Commitments and contingencies	0	0
Stockholders' equity:		
Preferred stock, US\$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2015 (2014: nil)		
Common stock, US\$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 175,893,533 shares in 2015 (2014: 175,610,978)	17,589	17,561
Additional paid-in capital	94,304,014	94,328,182
Accumulated deficit	(74,306,486)	(64,990,359)
Current year loss	(4,127,593)	(9,316,127)
Accumulated other comprehensive income	(298,312)	(298,312)
Total stockholders' equity	15,589,212	19,740,945
Total liabilities and stockholders' equity	45,595,557	47,532,638

See accompanying notes to the financial statements.



Universal Biosensors, Inc.

Consolidated Condensed Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	AS\$	AS\$	AS\$	AS\$
Revenue				
Revenue from products	344,289	0	416,406	0
Revenue from services	4,006,580	1,513,981	7,044,400	2,865,932
Total revenue	4,350,869	1,513,981	7,460,806	2,865,932
Operating costs & expenses				
Cost of goods sold	273,026	0	340,166	0
Cost of services	179,993	6,777	190,953	22,922
Total cost of goods sold & services	453,019	6,777	531,119	22,922
Contribution from products & services	3,897,850	1,507,204	6,929,687	2,843,010
Other operating costs & expenses				
Research and development	4,952,733	4,270,368	9,894,716	9,185,555
General and administrative	1,502,167	1,683,105	3,126,298	3,066,511
Total operating costs & expenses	6,454,900	5,953,473	13,021,014	12,252,066
Loss from operations	(2,557,050)	(4,446,269)	(6,091,327)	(9,409,056)
Other income/(expense)				
Interest income	43,233	29,501	99,974	83,849
Interest expense	(7,084)	(4,771)	(9,918)	(11,133)
Financing costs	(752,544)	(633,629)	(1,780,112)	(1,290,900)
Other	2,013,594	1,700,239	3,653,790	3,674,593
Total other income/(expense)	1,297,199	1,091,340	1,963,734	2,456,409
Net loss before tax	(1,259,851)	(3,354,929)	(4,127,593)	(6,952,647)
Income tax benefit/(expense)	0	0	0	0
Net loss	(1,259,851)	(3,354,929)	(4,127,593)	(6,952,647)
Earnings per share				
Basic and diluted net loss per share	(0.01)	(0.02)	(0.02)	(0.04)
Other comprehensive gain, net of tax:				
Reclassification for (losses)/gains realised in net income	0	0	0	0
Other comprehensive (loss)/gain	0	0	0	0
Comprehensive loss	(1,259,851)	(3,354,929)	(4,127,593)	(6,952,647)

See accompanying notes to the financial statements.



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Universal Biosensors, Inc.

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

	Ordinary shares		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Deficit	Other	Stockholders'
		AS	Capital	AS	Comprehensive	Equity
		AS	AS	AS	Income	AS
Balances at January 1, 2014	175,600,605	17,560	94,955,051	(64,990,359)	(298,312)	29,683,940
Net loss	0	0	0	(6,952,647)	0	(6,952,647)
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	(280,764)	0	0	(280,764)
Balances at June 30, 2014	<u>175,610,978</u>	<u>17,561</u>	<u>94,675,286</u>	<u>(71,943,006)</u>	<u>(298,312)</u>	<u>22,451,529</u>
Balances at January 1, 2015	175,610,978	17,561	94,328,182	(74,306,486)	(298,312)	19,740,945
Net loss	0	0	0	(4,127,593)	0	(4,127,593)
Shares issued to employees	282,555	28	64,960	0	0	64,988
Stock option expense	0	0	(89,128)	0	0	(89,128)
Balances at June 30, 2015	<u>175,893,533</u>	<u>17,589</u>	<u>94,304,014</u>	<u>(78,434,079)</u>	<u>(298,312)</u>	<u>15,589,212</u>

See accompanying notes to the financial statements.



Universal Biosensors, Inc.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2015	2014
	AS	AS
Cash flows from operating activities:		
Net loss	(4,127,593)	(6,952,647)
Adjustments to reconcile net profit/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	1,347,684	1,191,088
Share based payments expense	(89,128)	(280,764)
Unrealized foreign exchange losses	449,954	135,605
Financing costs	104,354	88,362
Change in assets and liabilities:		
Inventory	(259,160)	(257,667)
Accounts receivables	(171,340)	358,660
Prepaid expenses and other current assets	(3,845,045)	(1,734,969)
Deferred revenue	106,545	(95,996)
Employee entitlements	238,262	181,133
Accounts payable and accrued expenses	2,937,991	1,739,876
Net cash used in operating activities	<u>(3,307,476)</u>	<u>(5,627,319)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(748,447)	(400,764)
Net cash used in investing activities	<u>(748,447)</u>	<u>(400,764)</u>
Cash flows from financing activities:		
Proceeds from borrowings	0	552,772
Repayment of borrowings	(390,879)	(386,941)
Borrowing costs	(1,903,394)	(1,077,914)
Net cash used in financing activities	<u>(2,294,273)</u>	<u>(912,083)</u>
Net decrease in cash and cash equivalents	(6,350,196)	(6,940,166)
Cash and cash equivalents at beginning of period	16,329,829	23,742,422
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	740,422	(932,673)
Cash and cash equivalents at end of period	<u>10,720,055</u>	<u>15,869,583</u>

See accompanying notes to the financial statements

**Universal Biosensors, Inc.****Notes to Consolidated Condensed Financial Statements (Unaudited)****Organization of the Company**

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

We were incorporated in the State of Delaware on September 14, 2001 and our shares of common stock in the form of CHES Depositary Interests ("CDIs") have been quoted on the Australian Securities Exchange ("ASX") since December 13, 2006. Our securities are not currently traded on any other public market. Our wholly owned subsidiary and primary operating vehicle, UBS, was incorporated as a proprietary limited company in Australia on September 21, 2001. UBS conducts our research, development and manufacturing activities in Melbourne, Australia.

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

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

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

Interim Financial Statements

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the financial statements and footnotes thereto as of and for the year ended December 31, 2014, included in the Form 10-K of Universal Biosensors, Inc.

The year-end consolidated condensed balance sheets data as at December 31, 2014 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain prior year amounts in the consolidated condensed financial statements have been reclassified to conform to the current presentation.

Basis of Presentation

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Cash & Cash Equivalents

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

Short-Term Investments (Held-to-maturity)

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

Concentration of Credit Risk and Other Risks and Uncertainties

Cash and cash equivalents and accounts receivable consist of financial instruments that potentially subject the Company to concentration of credit risk to the extent of the amount recorded on the consolidated condensed 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 condensed 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.



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Universal Biosensors, Inc.**Notes to Consolidated Condensed Financial Statements (Unaudited)***Cash flow hedges*

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

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

For cash flow hedges, other than those covered by the preceding statement, the associated cumulative gain or loss is removed from equity and recognized in the consolidated condensed statements of comprehensive income in the same period or periods during which the hedged forecast transaction affects the consolidated condensed 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 condensed 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 condensed statements of comprehensive income.

Derivative Instruments and Hedging Activities

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. At June 30, 2015 and year ended December 31, 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. The fair value methodologies described as Level 2 and 3 inputs are defined elsewhere in these notes to the financial statements.

Inventory

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



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Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

	Six Months Ended June 30, 2015 A\$	Year Ended December 31, 2014 A\$
Raw materials	280,798	351,007
Work in progress	348,240	46,443
Finished goods	27,572	0
	<u>656,610</u>	<u>397,450</u>

Receivables

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

	Six Months Ended June 30, 2015 A\$	Year Ended December 31, 2014 A\$
Accounts receivable	3,971,045	3,799,705
Allowance for doubtful debts	0	0
	<u>3,971,045</u>	<u>3,799,705</u>

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Research and development expenses for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	AS	AS	AS	AS
Research	294,498	318,232	511,087	744,535
Development	4,658,235	3,952,136	9,383,629	8,441,020
Research and development expenses	<u>4,952,733</u>	<u>4,270,368</u>	<u>9,894,716</u>	<u>9,185,555</u>

Income Taxes

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

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

We are subject to income taxes in the United States and Australia. U.S. federal income tax returns up to and including the 2013 financial year have been filed. Internationally, consolidated income tax returns up to and including the 2014 financial year have been filed.

Asset Retirement Obligations

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

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

Our overall ARO changed as follows:

	Six Months Ended June 30,	Year Ended December 31,
	2015	2014
	AS	AS
Opening balance	2,600,000	2,549,928
Accretion expense	0	50,072
Ending balance	<u>2,600,000</u>	<u>2,600,000</u>



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Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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 condensed 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.



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Universal Biosensors, Inc.**Notes to Consolidated Condensed Financial Statements (Unaudited)**

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

Master Services and Supply Agreement

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

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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 June 30, 2015:

- 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.
- 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 December 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.

There were no revenues recognized for the six months ended June 30, 2015 and 2014 relating to the delivery of the milestones pursuant to the Collaboration Agreement.

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 (which generally means an entity's total ordinary income that it derives in the ordinary course of carrying on a business, subject to certain exclusions) 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 Company's research and development incentive income has been recognized as non-operating income as it is not indicative of the core operating activities or revenue producing goals of the Company.

Management has assessed the Company's research and development activities and expenditures to determine which are likely to be eligible under the tax incentive regime described above. At each period end management estimates the

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

refundable tax offset available to the Company based on available information at the time. This estimate is also reviewed by external tax advisors on an annual basis. The Company has recorded research and development tax incentive income of A\$1,979,785 and A\$1,729,498 for the three months ended June 30, 2015 and 2014, respectively and A\$4,296,076 and A\$3,720,149 for the six months ended June 30, 2015 and 2014, respectively. Research and development expenses, net of the research and development tax incentive income for the respective periods are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	A\$	A\$	A\$	A\$
Research and development expenses	4,952,733	4,270,368	9,894,716	9,185,555
Research and development tax incentive income	(1,979,785)	(1,729,498)	(4,296,076)	(3,720,149)
	<u>2,972,948</u>	<u>2,540,870</u>	<u>5,598,640</u>	<u>5,465,406</u>

The research and development tax incentive income is recorded under the caption "Other" in the consolidated condensed statements of comprehensive income.

Foreign Currency

Functional and reporting currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of 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 condensed statements of comprehensive income.

The Company has recorded foreign currency transaction (losses)/gains of A\$33,810 and (A\$29,259) for the three months ended June 30, 2015 and 2014, respectively and (A\$642,285) and (A\$45,556) for the six month period ended June 30, 2015 and 2014, respectively.

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

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

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



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Universal Biosensors, Inc.**Notes to Consolidated Condensed Financial Statements (Unaudited)*****Commitments and Contingencies***

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Our contingent liabilities as at June 30, 2015 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 which will only arise when LifeScan sells a billion strips in a calendar year for the first time. We have no visibility of future sales by LifeScan and it is uncertain whether we would be required to make this marketing support payment, however, if current sales trends are maintained, we expect the first year in which LifeScan sells a billion strips to be 2016.
- 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 receive a milestone payment on the launch sign-off for each of the analyzers. These milestone payments are expected to total A\$600,000. The milestones have not been accrued as the analyzers Planet Innovation is currently working on are in the research and development phases and it is uncertain whether these milestones will be achieved.

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 (equivalent to A\$2.28 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 condensed balance sheets.

Patent and License Costs

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

Clinical Trial Expenses

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

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

Leased Assets

All of the Company’s leases for the periods ending June 30, 2015 and December 31, 2014 are considered operating leases. The costs of operating leases are charged to the consolidated condensed statements of comprehensive income on a straight-line basis over the lease term.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Stock-based Compensation

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

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

(a) Stock Option Plan

In 2004, the Company adopted an employee option plan (“Plan”). Options may be granted pursuant to the Plan to any person considered by the board to be employed by the Group on a permanent basis (whether full time, part time or on a long term casual basis). Each option gives the holder the right to subscribe for one share of common stock. The total number of options that may be issued under the Plan is such maximum amount permitted by law and the Listing Rules of the ASX. The exercise price and any exercise conditions are determined by the board at the time of grant of the options. Any exercise conditions must be satisfied before the options vest and become capable of exercise. The options lapse on 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.

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		
	Jan-15	Jan-15	Aug-14
Exercise Price (A\$)	0.00	0.23	0.17
Share Price at Grant Date (A\$)	0.23	0.23	0.17
Volatility	72%	72%	71%
Expected Life (years)	7	7	7
Risk Free Interest Rate	2.27%	2.27%	3.13%
Fair Value of Option (A\$)	0.23	0.14	0.10

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Stock option activity during the current period is as follows:

	Number of shares	Weighted average exercise price A\$
Balance at December 31, 2014	9,333,436	1.06
Granted	557,500	0.16
Exercised	0	0.00
Lapsed	(279,166)	1.24
Balance at June 30, 2015	9,611,770	1.00

The number of options exercisable as at June 30, 2015 and June 30, 2014 was 8,434,729 and 8,219,892, respectively. The total stock compensation income recognized in the consolidated condensed statements of comprehensive income was A\$37,162 and A\$81,957 for the three months ended June 30, 2015 and 2014, respectively and A\$89,128 and A\$280,764 for the six month period ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, there was A\$151,519 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	89,607
2016	50,542
2017	11,370
	151,519

The aggregate intrinsic value for all options outstanding as at June 30, 2015 and June 30, 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 RSUs to employees of the Company on a recurring basis, but no more frequently than annually. The restricted shares have the same terms of issue as our existing shares of common stock but are not able to be traded until the earlier of three years from the date on which the shares are issued or the date the relevant employee ceases to be an employee of the Company or any of its associated group of companies.

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

	Number of Restricted Shares Issued	Market Value of Restricted Shares Issued (A\$)
June, 2014	2,040	1,000
Jan, 2015	282,555	64,988



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Universal Biosensors, Inc.**Notes to Consolidated Condensed Financial Statements (Unaudited)**

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

	Number of shares	Weighted average issue price A\$
Balance at December 31, 2014	234,487	0.72
Release of restricted shares	(65,999)	0.82
Granted	282,555	0.23
Balance at June 30, 2015	451,043	0.40

Employee Benefit Costs

The Company contributes to standard defined contribution superannuation funds on behalf of all employees. This contribution amount, formerly equal to 9% of each employee's salary, was increased by law to 9.25% from July 1, 2013 and 9.5% 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 consolidated condensed 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 (refer to Note on "Stock-based Compensation" for details of options outstanding) 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.

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.



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Universal Biosensors, Inc.
Notes to Consolidated Condensed Financial Statements (Unaudited)

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 condensed consolidated financial statements.

On July 9, 2015 the FASB decided to delay the effective date of ASU 2014-09 by one year. For public entities, the standard will be effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption will be permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods).

On January 9, 2015, the FASB issued ASU 2015-01 to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the ASU, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item.

ASU 2015-01 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. Entities may apply the guidance prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted if the guidance is applied as of the beginning of the annual period of adoption. The adoption of this guidance has not had a material impact on the Company’s financial statements.

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



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Universal Biosensors, Inc.**Notes to Consolidated Condensed Financial Statements (Unaudited)*****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 provided certain services relating to the establishment and maintenance of a quality management system at SpeedX. Consulting fees received under this agreement in 2014 were A\$77,758. In addition, a success fee of A\$50,000 was paid by SpeedX in 2014 as the criteria for successful completion of the engagement was met.

Mr. Denver is a director of the Company and SpeedX. Until September 27, 2013, PFM Cornerstone Limited held approximately 6% of our shares (this holding has since decreased to less than 1.0% 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.

Borrowings

Future maturities, interest and other payments under the Company's long term secured loan pursuant to the credit agreement (described below) as of June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015		December 31, 2014	
	US\$	A\$	US\$	A\$
2015	1,202,722		2,649,167	
2016	1,761,375		1,732,500	
2017	1,756,563		1,732,500	
2018	16,694,000		16,732,500	
Thereafter	0		0	
Total minimum payments	21,414,660		22,846,667	
Less amount representing interest and other fees	(6,414,660)		(7,846,667)	
Gross balance of long term debt	15,000,000		15,000,000	
Less fair value of warrants recorded within loan (a)	(815,655)		(815,655)	
Plus interest accretion	249,389		168,494	
Total carrying value	14,433,734	18,793,925	14,352,839	17,499,194
Less current portion	0	0	0	0
Total carrying value, non-current portion	14,433,734	18,793,925	14,352,839	17,499,194

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

- (a) The warrants issued in December 2013 had a fair value of US\$815,655 as of June 30, 2015 and December 31, 2014, and are included in long term debt carrying value.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Athyrium Credit Agreement

On December 19, 2013 ("Closing Date"), UBI and its wholly owned subsidiary, UBS (together UBI and UBS, the "Transaction Parties") entered into a credit agreement with Athyrium Opportunities Fund (A) LP ("Athyrium A"), as administrative agent (the "Administrative Agent") and as a lender, and Athyrium Opportunities Fund (B) LP ("Athyrium B") as a lender (Athyrium A and Athyrium B together with any other lenders party thereto from time to time, the "Lenders") for a secured term loan of up to US\$25 million, which was amended on January 30, 2015 ("Credit Agreement"). Of this amount, US\$15 million had been drawn at December 31, 2013, with a further US\$10 million ("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 QSFs 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 of 13% per annum shall apply during the existence of a default under the Credit Agreement. Other than as summarized below, UBS is not required to make payments of principal for amounts outstanding under the term loan until maturity, December 19, 2018. The term loan under the Credit Agreement is secured by substantially all of UBI and UBS' assets. UBI (together with any future subsidiaries) guarantees all of UBS's obligations under the term loan.

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

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

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

Other

In December 2014, UBS entered into an arrangement with Elantis Premium Funding Ltd to fund the Group's 2015 insurance premium. The total amount financed was A\$498,890 at inception which in May 2015 reduced by \$69,426. Interest is charged at a fixed rate of 2.84% per annum. The short-term borrowing is secured by the insurance premium refund.

Warrants

Pursuant to the 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 the Exercise Price.

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 and as such meet the definition of a freestanding derivative instrument pursuant to ASC 815.

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

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Restricted Cash

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

	Six Months Ended June 30, 2015 A\$	Year Ended December 31, 2014 A\$
Financial covenant pursuant to the Credit Agreement	2,600,000	2,600,000
Collateral for facilities	320,000	320,000
	<u>2,920,000</u>	<u>2,920,000</u>

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



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Universal Biosensors, Inc.**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

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

Our Business

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

We were incorporated in the State of Delaware on September 14, 2001 and our shares of common stock in the form of CHES Depositary Interests have been quoted on the ASX since December 13, 2006. Our securities are not currently traded on any other public market. Our wholly owned subsidiary and primary operating vehicle, UBS, was incorporated as a proprietary limited company in Australia on September 21, 2001. UBS conducts our research, development and manufacturing activities in Melbourne, Australia.

We have rights to an extensive patent portfolio, with certain patents owned by UBS and a number licensed to UBS by LifeScan, Inc. and other third party licensors.

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

- Coagulation testing market – we are working with Siemens in relation to a range of products for the point-of-care coagulation testing market pursuant to a 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, UBS is the manufacturer of test strips for this product and two further tests still in development for Siemens. We are also developing our own PT-INR test for use in decentralized settings including the patient self-test market and intend to enter into distribution agreements with respect to that test.
- Blood glucose – we provide services to LifeScan as required from time to time, pursuant to a Master Services and Supply Agreement and a Development and Research Agreement with LifeScan.
- Other electrochemical-cell based tests – we are working on demonstrating the broader application of our technology platform, including its application to diagnostic 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 products or technologies arising from this work.



Universal Biosensors, Inc.

Results of Operations

Analysis of Consolidated Revenue

Our total revenue increased by 187% and 160% to A\$4,350,869 and A\$7,460,806, respectively during the three and six months ended June 30, 2015 compared to the same period in the previous financial year.

This increase is primarily due to the following factors:

- underlying increase in quarterly service fees revenues resulting from the increased sales of the OneTouch Verio® strips by LifeScan; and
- increase in the number of PT-INR test strips for the Xprecia Stride™ Coagulation Analyzer manufactured by us on behalf of Siemens

Revenue from Products

The financial results of the PT-INR test strips for the Xprecia Stride™ Coagulation Analyzer we manufactured on behalf of Siemens during the respective periods are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	A\$	A\$	A\$	A\$
Revenue from products	344,289	0	416,406	0
Cost of goods sold	(273,026)	0	(340,166)	0
Production margin	71,263	0	76,240	0
Production margin (%)	21%	0%	18%	0%

We commenced manufacture of the PT-INR test strips during the third quarter of 2014. From this period and up until the first quarter of 2015, the revenues from the manufacture and sale of PT-INR strips to Siemens were low as Siemens were undertaking a limited marketing release of the product in Europe. The revenues have increased in the second quarter of 2015 following the full commercial launch by Siemens of the Xprecia Stride™ Coagulation Analyzer after successful completion of its limited European release. The production margin from the sale of our PT-INR strips is low, reflecting early stage production. At substantial volumes, we expect the margin to exceed 40% which is typical of device manufacturers with shared investment and research and development risk.

Revenue from Services

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

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



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Universal Biosensors, Inc.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	A\$	A\$	A\$	A\$
Revenue from services:				
Quarterly service fee	3,594,239	1,369,529	6,524,659	2,582,588
Other services	412,341	144,452	519,741	283,344
	4,006,580	1,513,981	7,044,400	2,865,932
Cost of services	(179,993)	(6,777)	(190,953)	(22,922)
Net margin	3,826,587	1,507,204	6,853,447	2,843,010

Quarterly service fee - The quarterly service fee increased by 162% and 153%, respectively during the three and six months ended June 30, 2015 compared to the same period in the previous financial year, reflecting ongoing market penetration and growth. In the current quarter, we earned US\$0.0125 for each strip sold by LifeScan, noting that in any given calendar year this rate will drop to US\$0.0075 per strip for the remainder of that calendar year when cumulative strip sales exceed 500 million during the calendar year.

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 June 30, 2015, LifeScan had paid cumulative quarterly service fees of US\$16.8 million. Where it gives such notice, LifeScan is required to continue to 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). Following the payment of this one-time fee, LifeScan would have no further obligation to pay quarterly service fees to Universal Biosensors.

By way of illustration only, if the growth trend in quarterly service fees continues, there is a scenario in which cumulative quarterly service fees reach US\$45 million at September 30, 2017. Assume under this scenario, LifeScan gives notice to Universal Biosensors on October 1, 2017 that it is exercising its option to convert the quarterly service fees. If quarterly service fees for the financial year 2017 total US\$16 million (with US\$4 million from October 1 to December 31, 2017) and LifeScan elects to pay the one-time lump sum fee at the earliest possible date being January 1, 2018, we would receive US\$67.4 million (equivalent to A\$87.7 million) in payments under the Master Services and Supply Agreement from April 1, 2015. These payments would be calculated as follows:

- US\$28.2 million (equivalent to A\$36.7 million) quarterly service fees from July 1, 2015 to September 30, 2017 (being quarterly service fees remaining to be paid by LifeScan from July 1, 2015 until cumulative quarterly service fees reaches US\$45 million); plus*
- US\$4.0 million (equivalent to A\$5.2 million) in quarterly service fees from October 1, 2017 to December 31, 2017 (being the remainder of the year in which notice is given); plus*
- US\$35.2 (equivalent to A\$45.8 million) million in one-time lump sum fee, equal to 2.2 multiplier (which is the applicable multiplier for 2017) by 2017 total quarterly service fees of US\$16 million.*

The above scenario and calculation is an illustration only and there can be no assurance that sales of OneTouch Verio® strips by LifeScan will be achieved (in the manner described in the illustration above or otherwise) or such quarterly service fees will be paid to Universal Biosensors or that LifeScan will exercise its option to make the one-time lump sum fee when it is entitled to do so.

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.

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



Universal Biosensors, Inc.

Contribution from Products & Services

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>AS</u>	<u>AS</u>	<u>AS</u>	<u>AS</u>
Quarterly service fee	3,594,239	1,369,529	6,524,659	2,582,588
Manufacturing contribution	71,263	0	76,240	0
Other services	232,348	137,675	328,788	260,422
Contribution from products & services	<u>3,897,850</u>	<u>1,507,204</u>	<u>6,929,687</u>	<u>2,843,010</u>

The increase is primarily represented by the growth in the quarterly service fee which has a 100% margin.

Research and Development Expenses

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

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

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 testing

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 was 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. As well as a wide range of immunoassay based tests, it is intended that this platform will incorporate the ability to perform D-Dimer and C Reactive Protein tests and leverage past research work on these assays.

Universal Biosensors, Inc.

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. Speedx is an Australian technology company focused on the development of catalytic nucleic acid enzymes for medical diagnostics and other applications.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	A\$	A\$	A\$	A\$
Research	294,498	318,232	511,087	744,535
Development	4,658,235	3,952,136	9,383,629	8,441,020
Research and development expenses	4,952,733	4,270,368	9,894,716	9,185,555

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

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

Research and development expenditure increased by 16% and 8% during the three and six months ended June 30, 2015 compared to the same period in the previous financial year. The increase principally reflects the effort required in the late stages of product development prior to launch of three new tests we are developing. Research and development expenditure includes a one-off milestone payment of A\$439,935 made pursuant to a supply agreement entered into with Plant Innovation, when it became apparent that a specified milestone would be achieved. Research and development expenditure, net of the research and development tax incentive income increased by 17% and 2% across the same period. The provision for research and development tax incentive income has increased and is generally in line with the increase in the research and development expenditure.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	A\$	A\$	A\$	A\$
Research and development expenses	4,952,733	4,270,368	9,894,716	9,185,555
Research and development tax incentive income	(1,979,785)	(1,729,498)	(4,296,076)	(3,720,149)
	2,972,948	2,540,870	5,598,640	5,465,406

Universal Biosensors, Inc.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	AS	AS	AS	AS
Depreciation	593,341	541,518	1,165,643	1,125,505
Share based payments	(27,900)	(59,221)	(66,913)	(211,018)
	<u>565,441</u>	<u>482,297</u>	<u>1,098,730</u>	<u>914,487</u>

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

In addition, our business strategy contemplates that we may enter into collaborative arrangements with third parties for one or more of our non-blood glucose programs. In the event that we are successful in securing such third party collaborative arrangements, the third party may direct the research and development activities and may contribute towards all or part of the cost of these activities, both of which will influence our research and development expenditure. Research and development activities undertaken on behalf of our customers and partners for the three months ended June 30, 2015 and 2014 were A\$2,381,722 and A\$2,264,986, respectively and A\$4,765,295 and A\$5,284,753 for the six months ended June 30, 2015 and 2014, respectively.

General and Administrative Expenses

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

General and administrative expenses decreased by 11% during the three months ended June 30, 2015 compared to the same period in the previous financial year, reflecting management's ongoing efforts to restrict spending on non-core activities. The expenditure increased by 2% during the six months ended June 30, 2015 compared to the same period in the previous financial year. The increase is primarily driven by issuance of shares and options to the employees in January 2015 as well as a one-off gain in the prior period relating to employee incentives which were not paid when certain performance hurdles were not met.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	AS	AS	AS	AS
General and administrative expenses	<u>1,502,167</u>	<u>1,683,105</u>	<u>3,126,298</u>	<u>3,066,511</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	AS	AS	AS	AS
Depreciation	31,689	42,532	63,837	65,583
Share based payments	(9,262)	(22,736)	(22,215)	(69,746)
	<u>22,427</u>	<u>19,796</u>	<u>41,622</u>	<u>(4,163)</u>

Interest Income

Interest income increased by 47% and 19%, respectively during the three and six months ended June 30, 2015 compared to the same periods in the previous financial year. The increase in interest income is generally attributable to the higher amount of funds available for investment in Australian currency. A large portion of our funds are held in US denominated currency which currently does not produce any investment interest.

Universal Biosensors, Inc.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	A\$	A\$	A\$	A\$
Interest income	43,233	29,501	99,974	83,849

Interest Expense

Interest expense for the 2015 financial year relates to 2.84% interest being charged on a short-term borrowing initiated in December 2014. In comparison, interest expense for the 2014 relates to 2.88% interest being charged on a short-term borrowing initiated in January 2014. These short-term loans were taken out to fund our insurance premiums.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	A\$	A\$	A\$	A\$
Interest expense	7,084	4,771	9,918	11,133

Financing Costs

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	A\$	A\$	A\$	A\$
Interest expense	509,513	426,193	1,021,513	869,853
Other debt issuance costs	243,031	207,436	758,599	421,047
	752,544	633,629	1,780,112	1,290,900

Interest expense relates to applicable interest of 10.5% levied on the loan. The debt issuance costs were recorded as deferred issuance costs and are amortized as interest expense, using the effective interest method, over the term of the loan.

Increase in financing costs is primarily a result of the costs incurred during the first quarter of 2015 in extending UBI's option to draw down a further US\$10 million until July 31, 2015. As the loan and the financing costs are denominated in USD, the increase is also as a result of the weakening of the AUD against the USD over the periods covered above. For further details, see Notes to Consolidated Condensed Financial Statements - *Summary of Significant Accounting Policies – Borrowings – Athyrium Credit Agreement*.

Other

Recorded under this caption is research and development tax incentive income. Research and development tax incentive income for the three months ended June 30, 2015 and 2014 were A\$1,979,785 and A\$1,729,498, respectively and A\$4,296,076 and A\$3,720,149, respectively for the six months ended June 30, 2015 and 2014. The balance is primarily represented by foreign exchange movements arising from the settlement of foreign denominated transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

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



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Universal Biosensors, Inc.

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

- a 43.5% refundable tax offset for entities with an aggregated turnover of less than A\$20 million per annum (note the current legislative rate is 45% but the Australian Government intend on proceeding with the reduction in rate to 43.5%), or
- a 38.5% non-refundable tax offset for all other entities (note the current legislative rate is 40% but the Australian Government intend on proceeding with the reduction in rate to 38.5%).

Critical Accounting Estimates and Judgments

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

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

(a) Revenue Recognition

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

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

(b) Stock-Based Compensation

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

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

Share Price and Exercise Price at Valuation Date

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

Volatility

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



Universal Biosensors, Inc.

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.



Universal Biosensors, Inc.

Risk Free Rate

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

Financial Condition, Liquidity and Capital Resources

Net Financial Assets

Our net financial assets position is shown below:

	Six Months Ended June 30, 2015 A\$	Year Ended December 31, 2014 A\$
Financial assets:		
Cash and cash equivalents	10,720,055	16,329,829
Accounts receivables	3,971,045	3,799,705
Total financial assets	14,691,100	20,129,534
Debt:		
Short term borrowings	108,011	498,890
Long term secured loan	18,793,925	17,499,194
Total debt	18,901,936	17,998,084
Net financial assets/(liabilities)	(4,210,836)	2,131,450

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

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

We believe we have sufficient cash and cash equivalents to fund our operations for at least the next twelve months.

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

We regularly review all our financial assets for impairment. There were no impairments recognized as at June 30, 2015 or for the year ended December 31, 2014.

Derivative Instruments and Hedging Activities

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. At June 30, 2015 and December 31, 2014, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives is based on the market approach using observable market inputs, such as forward rates, and incorporates non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2.

Universal Biosensors, Inc.

We had no outstanding contracts as at June 30, 2015 and December 31, 2014. We recognized gains of nil for the periods ended June 30, 2015 and December 31, 2014. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the periods ended June 30, 2015 and December 31, 2014. For further details, see Notes to Consolidated Financial Statements – *Summary of Significant Accounting Policies*.

Measures of Liquidity and Capital Resources

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

	Six Months Ended June 30, 2015	Year Ended December 31, 2014
	A\$	A\$
Cash and cash equivalents	10,720,055	16,329,829
Working capital	22,736,202	23,779,492
Ratio of current assets to current liabilities	4.66 : 1	4.66 : 1
Shareholders' equity per common share	0.09	0.11

The movement in cash and cash equivalents and working capital during the above periods was primarily due to reductions resulting from outflows of cash. These outflows reflect the effort required to complete the final stages of the development phase prior to launch of the tests we are undertaking and 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. For the year ended December 31, 2014, 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.

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

Summary of Cash Flows

	Six Months Ended June 30, 2015	2014
	A\$	A\$
Cash provided by/(used in):		
Operating activities	(3,307,476)	(5,627,319)
Investing activities	(748,447)	(400,764)
Financing activities	(2,294,273)	(912,083)
Net decrease in cash and cash equivalents	(6,350,196)	(6,940,166)

Our net cash used in operating activities for all periods is for our research and development projects including efforts involved in establishing and maintaining our manufacturing operations, and general and administrative expenditure. The outflows during these periods have been partially offset by receipts from our customers and partners. The improvement in operating cash outflows during the current financial year is primarily due to the increased income from Quarterly Service Fees.

Our net cash used in investing activities for all periods is primarily for the purchase of various plant and equipment in preparation for anticipated growth in coagulation strip manufacturing volumes.

Outflows of A\$1,903,394 and A\$1,077,914 included within our financing activities relates to the payment of interest and other debt issuance costs pursuant to the Credit Agreement for the six months ended June 30, 2015 and 2014,



Universal Biosensors, Inc.

respectively. We also took advantage of a favorable borrowing opportunity to prepay our annual insurances. A sum of A\$390,879 included with our financing activities for the six months ended June 30, 2015 represents repayment of such borrowings. The net proceeds (proceeds less repayments) of A\$165,831 is reflected as a financing activity for the six months ended June 30, 2014.

Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2015 are:

	A\$
Less than 1 year	573,029
1 – 3 years	1,203,288
3 – 5 years	629,474
More than 5 years	0
Total minimum lease payments	2,405,791

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

Contractual Obligations

Our future contractual obligations at June 30, 2015 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)	2,405,791	573,029	1,203,288	629,474	0
Purchase Obligations (3)	1,765,690	1,765,690	0	0	0
Long term secured loan (4)	18,793,925	0	0	18,793,925	0
Financing costs (5)	8,352,422	1,566,045	6,786,377	0	0
Other liability (6)	2,278,646	1,139,323	1,139,323	0	0
Other Long-Term Liabilities on Balance Sheet (7)	151,485	0	126,932	22,755	1,798
Total	36,347,959	5,044,087	9,255,920	22,046,154	1,798

- (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.



Universal Biosensors, Inc.

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

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



Universal Biosensors, Inc.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Financial Risk Management

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

Foreign Currency Market Risk

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

Although the Company has a hedging program, as at June 30, 2015 and December 31, 2014, there were no open derivatives 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.



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Universal Biosensors, Inc.

Item 4. Controls and Procedures

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

Changes in Internal Control Over Financial Reporting. During the fiscal quarter ended June 30, 2015, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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Universal Biosensors, Inc.

PART II**Item 1 Legal Proceedings**

None.

Item 1A Risk Factors

In addition to the other information discussed in this report, the factors described in Part I, Item 1A. "Risk Factors" in our 2014 Annual Report on Form 10-K filed with the SEC on March 12, 2015 should be considered as they could materially affect our business, financial condition or future results. There have not been any significant changes with respect to the risks described in our 2014 Form 10-K, but these are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

There has been no sale of equity securities by the Company or purchase of equity securities by the Company, or by an affiliated purchaser on behalf of the Company, since December 31, 2014.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable.

Item 5 Other Information

None.

Item 6 Exhibits

<u>Exhibit No</u>	<u>Description</u>	<u>Location</u>
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	Filed herewith
32	Section 1350 Certificate	Furnished herewith
101	The following materials from the Universal Biosensors, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements text	Filed herewith



Universal Biosensors, Inc.

SIGNATURES

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

UNIVERSAL BIOSENSORS, INC.
(Registrant)

Date: July 23, 2015

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

Date: July 23, 2015

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



INDEX TO EXHIBITS
Quarterly Report on Form 10-Q
Dated April 23, 2015

<u>Exhibit No</u>	<u>Description</u>	<u>Location</u>
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
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Exhibit 31.1**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Paul Wright, certify that:

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

Date: July 23, 2015

/s/ Paul Wright

Paul Wright
Principal Executive Officer
Universal Biosensors, Inc.



Exhibit 31.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Satesh Balak, certify that:

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

Date: July 23, 2015

/s/ Satesh Balak

Satesh Balak
Principal Financial Officer
Universal Biosensors, Inc.

**Exhibit 32****CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002 ***

In connection with the quarterly report of Universal Biosensors, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. The undersigned have executed this Certificate as of the 23rd day of July, 2015.

/s/ Paul Wright

Paul Wright

Principal Executive Officer

/s/ Salesh Balak

Salesh Balak

Principal Financial Officer

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