

Universal Biosensors Inc
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Universal Biosensors

13 August 2018

**Universal Biosensors releases H1 2018 results -
operating cash flow supporting investment in R&D and new product development**

All figures contained in this announcement are reported in A\$, unless otherwise stated

- Total revenue of \$13.5 million in H1 2018 vs \$14.3 million in H1 2017, impacted by a reduction in Xprecia Stride™ strip revenues from global partner Siemens
- Quarterly Service Fee revenues of \$12.0 million, an increase of 5.0% compared to H1 2017
- Increased investment in R&D and new product development to target development opportunities in the coagulation market, funded from operating cash flow
- Closing cash balance, including restricted cash, of \$31.1 million, compared to \$23.2 million as at end of H1 2017 (an increase of 34%)

Universal Biosensors (ASX: UBI) ('Company') today released its financial results for the first half of 2018 (H1 2018).

For the six months to 30 June 2018, total revenue was \$13.5 million, compared to \$14.3 million in the prior corresponding period (H1 2017).

Quarterly Service Fees (QSFs) paid to UBI by LifeScan for the supply of blood glucose test strips were \$12.0 million, 5% higher than the QSFs received in H1 2017 as a result of on-going demand of the OneTouch Verio® strips. To date, LifeScan has not exercised its option to give notice to buy out its obligation to pay QSFs. This option became available to LifeScan after the aggregate QSFs received by UBI from LifeScan exceeded US\$45 million in 4Q FY2017.

Revenues from the sale of Xprecia Stride™ Coagulation Analyser test strips was \$0.9 million in H1 2018 compared to \$2.3 million in H1 2017, with the decline reflective of inventory build-up by Siemens in FY2017 as it commenced its full commercial launch of the Xprecia Stride™ in various markets, including the US. UBI expects that PT-INR test strip volume and revenues will continue to be sequentially lower until Siemens gains meaningful global market share.

Total operating costs and expenses for H1 2018 increased 32% compared to H1 2017. This was largely due to increased R&D expenditure (\$6.7 million in H1 2018, up from \$4.4 million in H1 2017), as the Company has ramped-up various development tests for Siemens in relation to a new and alternative coagulation product which are being designed to expand PT-INR functionality and penetration in the Point-of-Care coagulation market. These development tests are required prior to the coagulation product commencing the regulatory clinical trial process. Increased R&D expenditures was partially offset by cost reduction efforts such as over 20% Rowville corporate full-time staff reduction over the past nine months.

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During H1 2018, UBI also re-commenced work on an in-house proprietary PT-INR self testing device and associated test strip and through this process is leveraging knowledge acquired from existing partner-funded development activities. Previously the proprietary product development was put on hold since March 2016.

Scope exists to explore several distribution partnerships and the Company has commenced discussions with potential partners in this regard. Management also continues to explore inorganic growth through strategic options that are complementary to UBI's business and that would enhance shareholder value.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for H1 2018 was \$1.7 million, compared to \$4.9 million in H1 2017, primarily as a result of increased operating costs and expenses, particularly R&D, as highlighted above.

UBI's cash balance as at 30 June 2018, including restricted cash in term deposits, was \$31.1 million, up from \$23.2 million as at 30 June 2017. The Company's net cash position after accounting for its debt obligations was \$11.0 million, a \$7.1m improvement from the previous comparable period (H1 FY2017: \$3.9 million).

--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

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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, 2018	June 30, 2017

2. Results for announcement to the market

				June 30, 2018	June 30, 2017
Revenue from ordinary activities	Down	6%	to	13,490,249	14,327,351
Income/(Loss) from ordinary activities after tax attributable to members	Decreased by	2,973,007	to	(473,638)	2,499,369
Income/(Loss) for the period attributable to members	Decreased by	2,973,007	to	(473,638)	2,499,369

Other key results

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
	A\$	A\$		A\$	A\$	
Revenue						
Revenue from products	451,850	1,425,171	-68%	903,670	2,297,615	-61%
Quarterly service fees	5,086,170	4,671,598	9%	12,025,194	11,454,992	5%
Revenue from services (ex. QSF)	268,082	297,113	-10%	561,385	574,744	-2%
Total revenue	5,806,102	6,393,882	-9%	13,490,249	14,327,351	-6%
Operating costs & expenses						
Cost of goods sold	417,857	1,039,244	-60%	869,019	1,915,134	-55%
Cost of services	166,127	192,888	-14%	427,195	482,805	-12%
Total cost of goods sold & services	583,984	1,232,132	-53%	1,296,214	2,397,939	-46%
Contribution from products & services	5,222,118	5,161,750	1%	12,194,035	11,929,412	2%
Other operating costs & expenses						
Product support	126,587	267,817	-53%	194,149	331,693	-41%
Depreciation	534,652	413,348	29%	1,067,894	849,014	26%
Research and development	2,827,021	2,369,829	19%	6,692,945	4,429,064	51%
General and administrative	1,960,023	1,543,633	27%	3,750,094	3,230,162	16%
Total operating costs & expenses	5,448,283	4,594,627	19%	11,705,082	8,839,933	32%
Profit/(loss) from operations	(226,165)	567,123	-140%	488,953	3,089,479	-84%
Other income/(expense)						
Interest income	145,088	22,173	554%	189,899	58,853	223%
Interest expense	0	(2,883)	-100%	0	(6,727)	-100%
Financing costs	(708,985)	(709,884)	0%	(1,383,123)	(1,403,715)	-1%
Exchange gain	230,021	138,283	66%	229,373	641,547	-64%
Other	2,582	119,931	-98%	1,260	119,932	-99%
Total other income/(expense)	(331,294)	(432,380)	-23%	(962,591)	(590,110)	63%
Net income/(loss) before tax	(557,459)	134,743	-514%	(473,638)	2,499,369	-119%
Income tax benefit/(expense)	0	0		0	0	
Net income/(loss)	(557,459)	134,743	-514%	(473,638)	2,499,369	-119%

3. Net tangible asset backing

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	7 cents / share	9 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 Stockholders of Universal Biosensors, Inc.

Results of Review of Financial Information

We have reviewed the accompanying consolidated condensed balance sheet of Universal Biosensors, Inc. and its subsidiaries as of June 30, 2018, and the related consolidated condensed statements of comprehensive income/(loss) for the three-month and six-month periods ended June 30, 2018 and 2017, and the consolidated condensed statements of changes in stockholders' equity and comprehensive income/(loss) and of cash flows for the six-month periods ended June 30, 2018 and 2017, including the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it 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 balance sheet of the Company as of December 31, 2017, and the related consolidated statements of comprehensive income/(loss), and of changes in stockholders' equity and comprehensive income/(loss) and of cash flows for the year then ended (not presented herein), and in our report dated February 23, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. 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 PCAOB, 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Newcastle, Australia
August 13, 2018

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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, 2018

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 has submitted electronically every Interactive Data File required to be submitted 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, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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: 176,750,217 shares of Common Stock, U.S.\$0.0001 par value, outstanding as of August 13, 2018.

UNIVERSAL BIOSENSORS, INC.

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Unless otherwise noted, references on this Form 10-Q to “Universal Biosensors”, the “Company,” “Group,” “we,” “our” or “us” means Universal Biosensors, Inc. (“UBI”) a Delaware corporation and, when applicable, its wholly owned Australian operating subsidiary, Universal Biosensors Pty Ltd (“UBS”) and UBS’ wholly owned Canadian operating subsidiary, Hemostasis Reference Laboratory Inc. (“HRL”). Unless otherwise noted, all references in this Form 10-Q to “\$”, “A\$” or “dollars” and dollar amounts are references to Australian dollars. References to “US\$” are references to United States dollars. References to “CAD\$” are references to Canadian dollars.

Universal Biosensors, Inc.

Item 1 Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	<u>AS</u>	<u>AS</u>
ASSETS		
Current assets:		
Cash and cash equivalents	27,902,157	26,259,918
Inventories, net	639,172	662,132
Accounts receivable	5,483,281	4,397,268
Prepayments	872,188	887,303
Restricted cash	15,352	15,309
Other current assets	1,139,690	860,254
Total current assets	<u>36,051,840</u>	<u>33,082,184</u>
Non-current assets:		
Property, plant and equipment	37,492,325	37,224,442
Less accumulated depreciation	(28,469,357)	(27,264,680)
Property, plant and equipment - net	<u>9,022,968</u>	<u>9,959,762</u>
Restricted cash	<u>3,220,000</u>	<u>3,220,000</u>
Total non-current assets	<u>12,242,968</u>	<u>13,179,762</u>
Total assets	<u>48,294,808</u>	<u>46,261,946</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	856,327	329,586
Accrued expenses	1,990,825	1,472,692
Short term secured loan	20,152,531	0
Other liabilities	2,771,753	2,626,413
Deferred revenue	658,675	2,356,583
Employee entitlements liabilities	1,573,479	1,550,182
Total current liabilities	<u>28,003,590</u>	<u>8,335,456</u>
Non-current liabilities:		
Asset retirement obligations	2,600,000	2,600,000
Employee entitlements liabilities	62,083	64,358
Long term secured loan	0	19,029,076
Deferred revenue	5,161,646	3,463,737
Total non-current liabilities	<u>7,823,729</u>	<u>25,157,171</u>
Total liabilities	<u>35,827,319</u>	<u>33,492,627</u>
Commitments and contingencies	<u>0</u>	<u>0</u>
Stockholders' equity:		
Preferred stock, US\$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil at June 30, 2018 (nil at December 31, 2017)		
Common stock, US\$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 176,498,550 shares at June 30, 2018 (176,498,550 at December 31, 2017)	17,650	17,650
Additional paid-in capital	93,627,763	93,450,721
Accumulated deficit	(80,397,343)	(79,632,626)
Current year loss	(473,638)	(764,717)
Accumulated other comprehensive loss	(306,943)	(301,709)
Total stockholders' equity	<u>12,467,489</u>	<u>12,769,319</u>
Total liabilities and stockholders' equity	<u>48,294,808</u>	<u>46,261,946</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Universal Biosensors, Inc.

Consolidated Condensed Statements of Comprehensive Income/(Loss) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	AS	AS	AS	AS
Revenue				
Revenue from products	451,850	1,425,171	903,670	2,297,615
Revenue from services	<u>5,354,252</u>	<u>4,968,711</u>	<u>12,586,579</u>	<u>12,029,736</u>
Total revenue	5,806,102	6,393,882	13,490,249	14,327,351
Operating costs & expenses				
Cost of goods sold	417,857	1,039,244	869,019	1,915,134
Cost of services	<u>166,127</u>	<u>192,888</u>	<u>427,195</u>	<u>482,805</u>
Total cost of goods sold & services	<u>583,984</u>	<u>1,232,132</u>	<u>1,296,214</u>	<u>2,397,939</u>
Contribution from products & services	5,222,118	5,161,750	12,194,035	11,929,412
Other operating costs & expenses				
Product support	126,587	267,817	194,149	331,693
Depreciation	534,652	413,348	1,067,894	849,014
Research and development	2,827,021	2,369,829	6,692,945	4,429,064
General and administrative	<u>1,960,023</u>	<u>1,543,633</u>	<u>3,750,094</u>	<u>3,230,162</u>
Total operating costs & expenses	<u>5,448,283</u>	<u>4,594,627</u>	<u>11,705,082</u>	<u>8,839,933</u>
Profit/(loss) from operations	(226,165)	567,123	488,953	3,089,479
Other income/(expense)				
Interest income	145,088	22,173	189,899	58,853
Interest expense	0	(2,883)	0	(6,727)
Financing costs	(708,985)	(709,884)	(1,383,123)	(1,403,715)
Exchange gain	230,021	138,283	229,373	641,547
Other	<u>2,582</u>	<u>119,931</u>	<u>1,260</u>	<u>119,932</u>
Total other income/(expense)	(331,294)	(432,380)	(962,591)	(590,110)
Net income/(loss) before tax	(557,459)	134,743	(473,638)	2,499,369
Income tax benefit/(expense)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net income/(loss)	<u>(557,459)</u>	<u>134,743</u>	<u>(473,638)</u>	<u>2,499,369</u>
Earnings per share				
Basic net income/(loss) per share	(0.00)	0.00	(0.00)	0.01
Average weighted number of shares - basic	176,498,550	176,389,850	176,498,550	176,388,375
Diluted net income/(loss) per share	(0.00)	0.00	(0.00)	0.01
Average weighted number of shares - diluted	176,498,550	177,688,753	176,498,550	177,650,680
Other comprehensive gain/(loss), net of tax:				
Foreign currency translation reserve	(9,856)	(160)	(5,234)	(1,046)
Reclassification for gain/(loss) realized in net income/(loss)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other comprehensive gain/(loss)	<u>(9,856)</u>	<u>(160)</u>	<u>(5,234)</u>	<u>(1,046)</u>
Comprehensive gain/(loss)	<u>(567,315)</u>	<u>134,583</u>	<u>(478,872)</u>	<u>2,498,323</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Universal Biosensors, Inc.

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

	Ordinary shares		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount AS				
Balances at January 1, 2017	176,386,884	17,639	93,167,465	(79,632,626)	(298,203)	13,254,275
Net income	0	0	0	2,499,369	0	2,499,369
Exercise of stock options issued to employees	3,332	0	766	0	0	766
Other comprehensive income/(loss)	0	0	0	0	(1,046)	(1,046)
Stock option expense	0	0	200,025	0	0	200,025
Balances at June 30, 2017	<u>176,390,216</u>	<u>17,639</u>	<u>93,368,256</u>	<u>(77,133,257)</u>	<u>(299,249)</u>	<u>15,953,389</u>
Balances at January 1, 2018	176,498,550	17,650	93,450,721	(80,397,343)	(301,709)	12,769,319
Net loss	0	0	0	(473,638)	0	(473,638)
Other comprehensive income/(loss)	0	0	0	0	(5,234)	(5,234)
Stock option expense	0	0	177,042	0	0	177,042
Balances at June 30, 2018	<u>176,498,550</u>	<u>17,650</u>	<u>93,627,763</u>	<u>(80,870,981)</u>	<u>(306,943)</u>	<u>12,467,489</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Universal Biosensors, Inc.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2018	2017
	A\$	A\$
Cash flows from operating activities:		
Net income/(loss)	(473,638)	2,499,369
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	1,222,047	1,258,890
Share based payments expense	177,042	200,025
(Gain)/loss on fixed assets disposal	(1,260)	2,409
Unrealized foreign exchange gains	(313,388)	(159,052)
Financing costs - amortization of warrants	67,870	106,678
Change in assets and liabilities:		
Inventory	22,960	(351,993)
Accounts receivables	(1,086,013)	(1,279,435)
Prepayment and other assets	(325,168)	17,166
Deferred revenue	0	(546,655)
Employee entitlements	15,787	139,392
Accounts payable and accrued expenses	1,503,710	(280,641)
Net cash provided by operating activities	<u>809,949</u>	<u>1,606,153</u>
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	2,582	0
Purchases of property, plant and equipment	(282,813)	(725,243)
Net cash used in investing activities	<u>(280,231)</u>	<u>(725,243)</u>
Cash flows from financing activities:		
Repayment of borrowings	0	(265,173)
Borrowing costs	(256,410)	0
Proceeds from stock options exercised	0	766
Net cash used in financing activities	<u>(256,410)</u>	<u>(264,407)</u>
Net increase in cash, cash equivalents and restricted cash	273,308	616,503
Cash, cash equivalents and restricted cash at beginning of period	29,495,227	23,622,322
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	1,368,974	(1,046,045)
Cash, cash equivalents and restricted cash at end of period	<u><u>31,137,509</u></u>	<u><u>23,192,780</u></u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Organization of the Company

We are a specialist medical diagnostics company focused primarily on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. In addition, we own, manage and operate a hemostasis laboratory.

Key aspects of our strategy for increasing shareholder value include:

- executing on our existing business activities, including undertaking research and development activities for our customers and partners, manufacturing products (test strips and analyzers) and providing development and support services including providing laboratory services, to our customers and partners;
- extending and demonstrating the broader application of our technology and seeking to enter into collaborative, strategic or distribution arrangements with other life sciences companies or other industry participants with respect to specific tests or specific fields;
- participating in healthcare markets across the globe; and
- identifying and pursuing related opportunities for growth.

Our plan of operations over the remainder of the fiscal year ending December 2018 is to:

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

During the current financial year, we are also reshaping the Company's resources to align with the commercial objectives set by UBI and our partners and the implementation of a commercially focused company wide incentive scheme to drive outcomes.

The Company's first global strategic partnership was established with LifeScan, Inc. ("LifeScan") in diabetes care. We have developed a blood glucose product with LifeScan ("OneTouch Verio[®]") which is now available in countries that represent over 90% of the world self-monitoring blood glucose market. 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 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, is now available in the United States, Europe, the Middle East, Africa, Asia Pacific, Latin America and Canada. Under the terms of a supply agreement with Siemens ("Supply Agreement"), UBS is the manufacturer of test strips for this product and further tests still in development for Siemens.

In addition, UBS is engaged in point-of-care coagulation product development for the consumer, home testing market which could be distributed globally on its own account.

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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and footnotes thereto as of and for the year ended December 31, 2017, included in the Annual Report on Form 10-K of Universal Biosensors, Inc. filed with the U.S. Securities and Exchange Commission (the "SEC") on February 23, 2018 (the "Annual Report").

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

The year-end consolidated condensed balance sheets data as at December 31, 2017 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

The Company's consolidated condensed 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 subsidiaries, UBS and HRL. All intercompany balances and transactions have been eliminated on consolidation.

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash

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. The Company maintains cash and restricted cash, which includes tenant security deposits, credit card security deposits and cash collateral for its borrowings. As of June 30, 2018, the Company has not realized any losses in such cash accounts and believes it is not exposed to any significant risk of loss.

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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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 primarily invested with one of Australia's largest banks. The Company is exposed to credit risk in the event of default by the banks holding the cash or cash equivalents to the extent of the amount recorded on the consolidated 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 may use derivative financial instruments to hedge its exposure to foreign exchange arising from operating, investing and financing activities. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

Cash flow hedges

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

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

For cash flow hedges, other than those covered by the preceding statement, the associated cumulative gain or loss is removed from equity and recognized in the consolidated 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. For periods ended June 30, 2018 and December 31, 2017, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives are based on the market approach using observable market inputs, such as forward rates and incorporate non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2. The fair value methodologies described as Level 2 and 3 inputs are defined elsewhere in these notes to the consolidated condensed financial statements.

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).

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.

	<u>Six Months Ended June 30, 2018</u>	<u>Year Ended December 31, 2017</u>
	A\$	A\$
Raw materials	435,038	380,540
Work in progress	156,582	253,483
Finished goods	<u>47,552</u>	<u>28,109</u>
	<u>639,172</u>	<u>662,132</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 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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

	<u>Six Months Ended June 30, 2018</u>	<u>Year Ended December 31, 2017</u>
	AS	AS
Accounts receivable	5,483,281	4,397,268
Allowance for doubtful debts	0	0
	<u>5,483,281</u>	<u>4,397,268</u>

Property, Plant, and Equipment – net

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

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

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

Impairment of Long-Lived Assets

The Company reviews its capital assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. In performing the review, 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.

Government grants

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

An amount of A\$271,318 and A\$89,500 were received under this grant in November 2017 and June 2018, respectively. In the event UBS had achieved milestones and received grant payments, it believes that the likelihood of being required to repay grant funding is remote because the Company continues to comply with the grant agreement.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Other Liabilities

Other liabilities are broken down as follows:

	<u>Six Months Ended June 30, 2018</u>	<u>Year Ended December 31, 2017</u>
	AS	AS
Current liabilities		
Marketing support payment	2,771,753	2,626,413
	<u>2,771,753</u>	<u>2,626,413</u>

Marketing Support Payment

During 2009, LifeScan chose not to proceed with the registration of the then current product but to proceed with an enhanced product, called OneTouch Verio®, and acknowledged that there would be a delay as a result. As a result of this change, LifeScan agreed to pay additional amounts per strip manufactured by the Company in 2010 and 2011 up to a specified volume limit (“manufacturing initiation payments”). At the same time, the Company agreed to pay LifeScan a marketing support payment in each of the two years following the first calendar year in which 1 billion strips are sold by LifeScan equal to 40% of the total manufacturing initiation payments made. The first calendar year in which 1 billion strips were sold by LifeScan was during the 2016 financial year. These amounts will be paid to LifeScan once supporting documentation has been provided to us. The total amount of marketing support payments to be paid to LifeScan in US\$ once all the documentation is received is US\$2,048,602 (equivalent to A\$2,771,753).

Research and Development

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

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	AS	AS	AS	AS
Research and development expenses	<u>2,827,021</u>	<u>2,369,829</u>	<u>6,692,945</u>	<u>4,429,064</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.

The recent U.S. Federal Tax Reform has established a mandatory repatriation of foreign accumulated undistributed earnings and profits (the “E&Ps”) for U.S. companies’ subsidiaries. In the past, none of these E&Ps’ were repatriated since such E&Ps’ were considered to be reinvested indefinitely in the foreign location. The E&Ps’ provisions are applicable to our Company commencing with our fiscal year 2018, however the E&Ps’ mandatory repatriation provisions establishes measurement dates for various computations. In our Company’s case this date is December 31, 2017. The Company’s estimated tax for the mandatory repatriation is estimated to be nil. However, the final tax due must be assessed with our December 31, 2018 closing figures. Any such tax liability may be paid over a period of eight years starting on February 28, 2019. As of the issuance date of this report, the U.S. Securities and Exchange Commission and the Financial Accounting Standards Board have issued some preliminary guidance, but have not issued final rules on how the effects of the U.S. Federal Tax Reform will be required to be reported for financial statements purposes.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

At December 31, 2017 the Company has A\$10,993,737 (A\$22,616,230 at December 31, 2016) of accumulated tax losses available for carry forward against future earnings, which under Australian tax laws do not expire but may not be available under certain circumstances. The Company also has A\$11,048,336 (A\$5,800,672 at December 31, 2016) of non-refundable R&D tax offset as at December 31, 2017. The R&D Tax offset is a non-refundable tax offset, which assists to reduce a company's tax liability. Once the liability has been reduced to zero, any excess offset may be carried forward into future income years. UBI has U.S. tax losses available for carry forward against future earnings of US\$1,011,321 as of December 31, 2017 and 2016. Pursuant to the U.S. Federal Tax Reform, the effective tax rate of UBI has been reduced from 34% to 21%. The deferred tax benefit based on this new rate for UBI is US\$212,377. HRL has Canadian tax losses available for carry forward against future earnings of CAD\$668,043 and CAD\$95,096 as at December 31, 2017 and 2016, respectively.

We are subject to income taxes in the United States, Canada and Australia. Tax returns up to and including the 2016 financial year have been filed in all these jurisdictions. Tax returns in Australia and Canada for the 2017 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.

ARO for the years ended June 30, 2018 and December 31, 2017 was \$2,600,000.

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

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

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

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

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

Management has concluded that the core operations of the Company are expected to be 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 (as amended) contains a further seven payments from Siemens upon the achievement of certain defined milestones. These seven milestones, to a large extent, relate to feasibility, regulatory submissions and the launch of the products to be developed. The Company has concluded that the up-front payment is not a separate unit of accounting and recorded the amount as deferred revenue to be recognized as revenue across other deliverables in the arrangement with Siemens based upon the Company's best estimate of selling price. The deliverables related to each of the seven milestones are considered substantive and are not priced at a significant incremental discount to the other deliverables. As the achievement of the seven milestones is contingent upon a future event, the revenue for each deliverable will be recognized as the contingencies are met and the consideration becomes fixed and determinable.

Of the seven milestones, the Company has delivered on four as of June 30, 2018. The last milestone delivered was in July 2015.

Interest income

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

Research and development tax incentive income

Research and development tax incentive income is recognized when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured.

The research and development tax incentive is one of the key elements of the Australian Government's support for Australia's innovation system and is supported by legislative law primarily in the form of the Australian Income Tax Assessment Act 1997 as long as eligibility criteria are met. Generally speaking, entities which are an R&D entity involved in eligible R&D activities may claim research and development tax incentive income as follows:

- (1) as a 43.5% refundable tax offset if aggregate turnover (which generally means an entity's total income that it derives in the ordinary course of carrying on a business, subject to certain exclusions) of the entity is less than A\$20 million, or
- (2) as a 38.5% non-refundable tax offset if aggregate turnover of the entity is more than A\$20 million.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

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

In the six months ended June 30, 2018 there is no reasonable assurance that the aggregate turnover of the Company for the year ending December 31, 2018 will be less than A\$20 million and accordingly A\$0 has been recorded as research and development tax incentive income. The eligible R&D activities and expenditures are able to be claimed as part of the current year income tax computation and any amounts included as a tax asset will be subject to recognition rules under ASC 740 "Income Taxes".

For the six months ended June 30, 2017, a similar determination was made and A\$0 was recorded as research and development tax incentive income.

Foreign Currency

Functional and reporting currency

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

The consolidated condensed 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 gains of A\$230,021 and A\$138,283 for the three months ended June 30, 2018 and 2017, respectively and A\$229,373 and A\$641,547 for the six months ended June 30, 2018 and 2017, 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;

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

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

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. These were nil as at June 30, 2018. Purchase commitments contracted for as at June 30, 2018 is A\$863,905.

Patent and License Costs

Legal and maintenance fees incurred for patent application costs have been charged to expense and reported in general and administrative 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, 2018 and December 31, 2017 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.

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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

(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			
	Oct-17	Oct-17	Oct-17	Feb-17
Exercise Price (A\$)	0.50	0.60	0.80	0.50
Share Price at Grant Date (A\$)	0.38	0.38	0.38	0.39
Volatility	68%	68%	68%	69%
Expected Life (years)	5	5	5	6
Risk Free Interest Rate	2.36%	2.36%	2.36%	2.47%
Fair Value of Option (A\$)	0.15	0.13	0.11	0.13

Stock option activity during the current period is as follows:

	Number of shares	Weighted average
		exercise price A\$
Balance at December 31, 2017	22,003,215	0.63
Granted	0	0.00
Exercised	0	0.00
Lapsed	(2,536,833)	0.77
Balance at June 30, 2018	<u>19,466,382</u>	<u>0.61</u>

The number of options exercisable as at June 30, 2018 and 2017 was 9,976,706 and 12,250,294, respectively. The total stock compensation expense recognized in the consolidated condensed statements of comprehensive income was A\$79,724 and A\$123,312 for the three months ended June 30, 2018 and 2017, respectively and A\$177,042 and A\$200,025 for the six months ended June 30, 2018 and 2017, respectively.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

As of June 30, 2018, there was A\$778,900 of unrecognized compensation expense related to unvested share-based compensation arrangements under the Employee Option Plan. This expense is expected to be recognized over the vesting years as follows:

Fiscal Year	A\$
2018	198,586
2019	321,558
2020	258,756
	<u>778,900</u>

The aggregate intrinsic value for all options outstanding as at June 30, 2018 and 2017 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 has in the past issued A\$1,000 worth of restricted shares of common stock to employees of the Company 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.

No restricted shares have been issued by the Company since January 1, 2017.

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

	Number of shares	Weighted average issue price A\$
Balance at December 31, 2017	492,749	0.31
Granted	0	0.00
Release of restricted shares	(276,305)	0.26
Balance at June 30, 2018	<u>216,444</u>	<u>0.38</u>

Employee Benefit Costs

The Company contributes 9.5% of each employee's salary to standard defined contribution superannuation funds on behalf of all UBS employees. Superannuation is a compulsory savings program whereby employers are required to pay a portion of an employee's remuneration to an approved superannuation fund that the employee is typically not able to access until they have reached the statutory retirement age. Whilst the Company has a third party default superannuation fund, it permits UBS employees to choose an approved and registered superannuation fund into which the contributions are paid. Contributions are charged to the consolidated condensed statements of comprehensive income as they become payable.

Registered Retirement Savings Plan and Deferred Sharing Profit Plan

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Benefit Plan

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

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

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

Total Comprehensive Income

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

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

	Before-Tax Amount A\$	Tax (Expense)/ Benefit A\$	Net-of-Tax Amount A\$
Six Months Ended June 30, 2018			
Foreign currency translation reserve	5,234	0	5,234
Reclassification for gains realised in net income	0	0	0
Other comprehensive loss	<u>5,234</u>	<u>0</u>	<u>5,234</u>
Six Months Ended June 30, 2017			
Foreign currency translation reserve	1,046	0	1,046
Reclassification for gains realised in net income	0	0	0
Other comprehensive loss	<u>1,046</u>	<u>0</u>	<u>1,046</u>

Business combinations

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

Reclassification

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Recent Accounting Pronouncements

(a) Recent issued accounting standards not yet adopted

ASU No.2016-02, "Leases"

On February 25, 2016, the FASB issued ASU 2016-02, its new standard on accounting for leases. ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet and eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. The standard also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure.

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

ASU No.2014-09, "Revenue from Contracts with Customers"

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. There are two permitted transition methods under the new standard, the full retrospective method or the modified retrospective method. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Company has deferred the adoption of this standard as is allowable for an Emerging Growth Company.

UBI has selected the modified retrospective method where the effect of applying the standard will be recognized at the date of initial application, without restating previous years. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements.

(b) Recently adopted accounting pronouncements

ASU No.2016-18, "Restricted Cash"

On November 17, 2016, the FASB issued ASU 2016-18, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods therein. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted for all entities. The Company has adopted this guidance from January 1, 2018 and it has not had a material impact on the Company's consolidated financial statements.

ASU No.2016-15, "Classification of Certain Cash Receipts and Cash Payments"

On August 26, 2016, the FASB issued ASU 2016-15, which amends the guidance in ASC 230 to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for all entities. The Company has adopted this guidance and it has not had a material impact on the Company's consolidated financial statements.

ASU No.2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory"

On October 24, 2016, the FASB issued ASU 2016-16, which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted for all entities as of the beginning of a fiscal year for which neither the annual or interim financial statements have been issued. Entities should apply the ASU's amendments on a modified retrospective basis, recognizing the effects in retained earnings as of the beginning of the year of adoption. The Company has adopted this guidance and it has not had a material impact on the Company's consolidated financial statements.

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Notes to Consolidated Condensed Financial Statements (Unaudited)

ASU No.2017-01, "Business Combination: Clarifying the Definition of a Business"

On January 5, 2017, the FASB issued ASU 2017-01 to clarify the definition of a business in ASC 805. The amendments in the ASU are intended to make application of the guidance more consistent and cost-efficient. The ASU is effective for annual periods beginning after December 15, 2017, including interim periods therein. The ASU must be applied prospectively on or after the effective date, and no disclosures for a change in accounting principle are required at transition. Early adoption is permitted for transactions (i.e., acquisitions or dispositions) that occurred before the issuance date or effective date of the standard. The Company has adopted this guidance and it has not had a material impact on the Company's consolidated financial statements.

ASU No.2017-09, "Compensation – Stock Compensation: Scope of Modification Accounting"

On May 10, 2017, the FASB issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. This ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted. The Company has adopted this guidance and it has not had a material impact on the Company's consolidated financial statements.

Related Party Transactions

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

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

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

Mr. Denver is a director of SpeedX and up until August 7, 2017 was a director of the Company. Mr. Denver continued to provide services to the Company in an advisory capacity between October 1, 2017 and June 30, 2018.

Mr. Coleman is a Non-Executive Chairman of the Company and Executive Chairman of Viburnum Funds Pty Ltd. Viburnum Funds Pty Ltd, as an investment manager for its associated funds holds a beneficial interest and voting power over approximately 18% of our shares.

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Notes to Consolidated Condensed Financial Statements (Unaudited)

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, 2018 and December 31, 2017 are as follows:

	June 30, 2018		December 31, 2017	
	US\$	A\$	US\$	A\$
2018	885,500		1,956,563	
2019	15,875,875		15,875,875	
Total minimum payments	16,761,375		17,832,438	
Less amount representing interest and other fees	(1,761,375)		(2,832,438)	
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	710,391		658,334	
Total carrying value	14,894,736	20,152,531	14,842,679	19,029,076
Less current portion	14,894,736	20,152,531	0	0
Total carrying value, non-current portion	0	0	14,842,679	19,029,076

Whilst the repayment date of the borrowings is July 1, 2019, it has been classified as a current liability as at June 30, 2018 as repayment will be made prior to June 30, 2018 to ensure the money is received by the Lenders on July 1, 2019. 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, 2018 and December 31, 2017, and are included in equity.

Athyrium Credit Agreement

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

The credit agreement was amended again on December 29, 2017 ("Amendment"). Subject to the terms of the Amendment, the Amendment modifies the Credit Agreement to (i) extend the maturity date to July 1, 2019 ("Maturity Date"), (ii) add the Borrower's wholly owned subsidiary, Hemostasis Reference Laboratory, Inc. ("HRL"), as a guarantor of the Borrower's obligations under the Credit Agreement and (iii) subject to the prior written consent of the Lenders in their sole discretion, permit UBI to repurchase shares in an aggregate amount up to US\$2,000,000 within 12 months after the date Lenders provide any such consent.

The term loan bears interest at 10.5% per annum payable in cash quarterly in arrears over the 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, July 1, 2019. The term loan under the Credit Agreement is secured by substantially all of UBI, UBS' and HRL's assets. UBI and HRL (together with any future subsidiaries) guarantees all of UBS's obligations under the term loan.

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

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Notes to Consolidated Condensed Financial Statements (Unaudited)

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

UBS paid a non-refundable fee of US\$625,000 to the Lenders on the Closing Date (being 2.5% of the aggregate credit facility) and non-refundable fees of US\$200,000 to the Lenders in connection with each of the January 2015 and December 2017 amendments to the Credit Agreement. A 2% commitment fee based on any available unused borrowing commitment was paid by UBS under the Credit Agreement until July 31, 2015. The Lenders are also entitled to receive 30% of the net proceeds of milestone payments paid under the Collaboration Agreement by and among UBS, UBI and Siemens, up to a maximum of US\$600,000 in the aggregate of which US\$300,000 was paid in February 2015 and the balance of US\$300,000 was paid in August 2015 (upon receipt of two further milestone payments). UBS has also agreed to pay certain taxes arising in connection with the Credit Agreement and other Loan Documents, including withholding taxes. UBS has also agreed to pay certain reasonable out-of-pocket expenses incurred by the Lenders in connection with the loan documents including the January 2015 and December 2017 amendments, or as may be incurred in connection with the enforcement or protection of their rights.

The Credit Agreement also contains certain covenants, including among other things, covenants: (i) relating to the delivery of financial and other information and certificates, notices of defaults, litigation and other material events; payment of taxes and other obligations; maintenance of insurance; (ii) which limit or restrict the incurrence of liens; the making of investments; the incurrence of certain indebtedness; mergers, dispositions, liquidations, or consolidations and significant asset sales; restricted payments; transactions with affiliates other than on normal and arms-length terms; burdensome agreements; prepayment of other indebtedness; ownership of subsidiaries; and (iii) which require UBS to maintain restricted 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 2016, UBS entered into an arrangement with Elantis Premium Funding Ltd to fund the Group's 2017 insurance premium. The total amount financed was A\$369,630 at inception and the short-term borrowing was fully repaid in September 2017. Interest was charged at a fixed rate of 2.60% per annum. The short-term borrowing was secured by the insurance premium refund. The Group's 2018 insurance premium was funded from its operating cash flows.

Warrants

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

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Notes to Consolidated Condensed Financial Statements (Unaudited)

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

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

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

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

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

Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated condensed balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	<u>Six Months Ended</u> <u>June 30,</u> <u>2018</u>	<u>Year Ended</u> <u>December 31,</u> <u>2017</u>
	AS	AS
Cash and cash equivalents	27,902,157	26,259,918
Restricted cash - current assets	15,352	15,309
Restricted cash - non-current assets	3,220,000	3,220,000
	<u>31,137,509</u>	<u>29,495,227</u>

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

	<u>Six Months Ended</u> <u>June 30,</u> <u>2018</u>	<u>Year Ended</u> <u>December 31,</u> <u>2017</u>
	AS	AS
Collateral for facilities (a) - current assets	15,352	15,309
Collateral for facilities (b) - non-current assets	320,000	320,000
Financial covenant pursuant to the credit agreement (c) - non-current assets	2,900,000	2,900,000
	<u>3,235,352</u>	<u>3,235,309</u>

(a) Represents bank guarantee of CDN\$15,000 as security deposit on HRL's credit card

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

- (b) Represents bank guarantee of A\$250,000 for commercial lease of UBS' premises and security deposit on Company's credit cards of A\$70,000
- (c) Represents amounts pledged as collateral for financing arrangements as contractually required by the Lenders. The restriction will lapse when the related debt is paid off in July 2019 or earlier as provided pursuant to the Credit Agreement

Interest earned on the restricted cash for the three months ended June 30, 2018 and 2017 were A\$17,863 and A\$18,545, respectively and for the six months ended June 30, 2018 and 2017 were A\$34,920 and A\$38,029, respectively.

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 most recent Annual Report on 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, as amended (the "Exchange Act") 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", "intends", "may", "assumes", "illustration", 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.

Results of Operations

Analysis of Consolidated Revenue

Despite sales of the OneTouch Verio® strips increasing, our total revenue decreased by 9% and 6% to A\$5,806,102 and \$13,490,249, respectively during the three and six months ended June 30, 2018 compared to the same period in the previous financial year as a result of a slow-down in sales of the Xprecia Stride™ strips.

Revenue from Products

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Revenue from products	451,850	1,425,171	903,670	2,297,615
Cost of goods sold	(417,857)	(1,039,244)	(869,019)	(1,915,134)
Production margin	<u>33,993</u>	<u>385,927</u>	<u>34,651</u>	<u>382,481</u>

The movement in revenues is primarily volume driven. Management is of the view that revenues increased in 2017 as a result of the full commercial launch by Siemens of the Xprecia Stride™ Coagulation Analyzer after successful completion of its limited release and inventory buildup for future sales. Due to the latter and as foreshadowed, the revenues during the current period are low. The volatile and low production margin from the sale of our PT-INR strips is reflective of lower throughput.

Revenue from Services

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

- Product enhancement – a quarterly service fee based on the number of strips sold by LifeScan which falls within a valid claim of certain LifeScan patents is payable to us as an ongoing reward for our services and efforts to enhance the product;

- Contract research and development – we undertake contract research and development on behalf of our customers and partners;
- Other services – calibration services provided by HRL and other ad-hoc services provided on an agreed basis according to our customers and partners requirements.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Revenue from services:				
Quarterly service fee	5,086,170	4,671,598	12,025,194	11,454,992
Other services	268,082	297,113	561,385	574,744
	<u>5,354,252</u>	<u>4,968,711</u>	<u>12,586,579</u>	<u>12,029,736</u>
Cost of services	(166,127)	(192,888)	(427,195)	(482,805)
Net margin	<u>5,188,125</u>	<u>4,775,823</u>	<u>12,159,384</u>	<u>11,546,931</u>

Quarterly service fee - The quarterly service fee from LifeScan, as reflected below, increased by 9% and 5%, respectively during the three and six months ended June 30, 2018 when compared to the same period in the previous financial year, reflecting ongoing market penetration and growth.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
No. of strips sold	451.56	422.33	877.06	837.15
Quarterly service fees - USD	3.76	3.59	9.08	8.78
Quarterly service fees - AUD	5.09	4.67	12.03	11.45

The quarterly service fee for each quarter in a LifeScan financial year is calculated based on the number of OneTouch Verio® blood glucose test strips sold in such LifeScan financial year as follows: US\$0.0125 per strip for the first 500 million strips sold in a financial year and US\$0.0075 per strip for sales in excess of 500 million strips in such financial year. A large proportion of the quarterly service fees for the three months ending June 30, 2018 and 2017 were calculated using the lower pricing of US\$0.0075 per strip when compared to the quarterly service fees for the quarter ending March 31, 2018 and 2017. Quarterly service fees are reported and paid by LifeScan in USD. Accordingly, revenues recognized by us from quarterly services fees paid by LifeScan were impacted by the movement of the AUD against the USD over the periods covered above.

LifeScan has the ability to buy out, or “convert,” its obligation to pay quarterly service fees to us in certain situations set out in the Master Services and Supply Agreement. At any time after the end of the quarter following receipt by us of an aggregate of US\$45 million in quarterly service fees, LifeScan has the option to give notice of its election to convert its obligation to continue paying the quarterly service fees. We received in excess of US\$45 million in aggregate quarterly service fees from LifeScan as of the end of the fourth quarter of 2017. In the event LifeScan delivers notice of conversion, LifeScan will remain obligated to pay the quarterly service fees for the remainder of LifeScan’s financial year (as defined in Johnson & Johnson’s internal accounting policies and procedures, which ends on the last Sunday of any given calendar year) in which the notice was given, and, after the end of that financial year, LifeScan must pay us a one-time lump sum fee to buy out its obligation to pay future quarterly service fees. The amount of this one-time lump sum service fee is calculated by multiplying the sum of all quarterly service fees for the LifeScan financial year in which notice of conversion is given, by 2. At any time after the end of the quarter following receipt by us of an aggregate of US\$45 million in quarterly service fees, LifeScan may also terminate the Master Services and Supply Agreement with 12 months’ notice and in addition must pay the one-time lump sum service fee. 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 in UBI and regulatory termination.

Other services - We generated revenues principally from calibration services performed by HRL and from Siemens based on work undertaken for them.

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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>AS</u>	<u>AS</u>	<u>AS</u>	<u>AS</u>
Quarterly service fees	5,086,170	4,671,598	12,025,194	11,454,992
Manufacturing contribution	33,993	385,927	34,651	382,481
Other services	101,955	104,225	134,190	91,939
Contribution from products & services	<u>5,222,118</u>	<u>5,161,750</u>	<u>12,194,035</u>	<u>11,929,412</u>

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

The manufacturing operation is currently running on one shift with all costs being expensed. The Company is investing in scale up projects which will improve efficiency and yields and lead to a profitable manufacturing operation. We are targeting a margin of 40% which we believe is typical of device manufacturers with shared investment and research and development risk. The manufacturing operation has the flexibility to expand in order to support volume increases on the Siemens contract.

Contribution from other services fluctuated over the period due to our partners' R&D services requirements. Other services also include business activities of the HRL operations.

EBITDA

EBITDA is essentially earnings before interest, taxes, depreciation and amortization. EBITDA is a non-GAAP measurement. Management uses EBITDA because it believes that such measurements are widely accepted financial indicators used by investors and analysts to analyze and compare companies on the basis of operating performance and that these measurements may be used by investors to make informed investment decisions, including our ability to generate earnings sufficient to service our debt, and enhances our understanding of our financial performance and highlights operational trends. These measures are not in accordance with, or an alternative for, generally accepted accounting principles in the United States (GAAP). The most comparable GAAP measure is net earnings from continuing operations. Consolidated EBITDA should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP.

EBITDA for the respective periods and a reconciliation of net income to EBITDA is as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Net income/(loss)	(557,459)	134,743	(473,638)	2,499,369
Interest income	(145,088)	(22,173)	(189,899)	(58,853)
Interest expense	583,292	583,973	1,135,659	1,155,415
Depreciation - cost of goods sold & services	43,174	184,475	153,941	409,875
Depreciation - other operating costs & expenses	534,652	413,348	1,067,894	849,014
EBITDA	<u>458,571</u>	<u>1,294,366</u>	<u>1,693,957</u>	<u>4,854,820</u>

Decline in EBITDA occurred primarily as a result of increase in our other operating costs and expenses.

Product Support

Product support relates to work undertaken by us to further enhance the product in the market.

Product support for the respective periods are as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Product support	<u>126,587</u>	<u>267,817</u>	<u>194,149</u>	<u>331,693</u>

Product support expenditure varies and is dependent upon the improvements we undertake. Management expects product support expenditure to decline over time.

Depreciation

Depreciation of fixed assets is based on a straight line basis over the useful life of property, plant and equipment. Depreciation is allocated to cost of goods sold and research and development expenditure based on output. With lower commercial production volume and increased production in research and development, more depreciation is allocated towards research and development during the current period.

Depreciation for the respective periods have been charged as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Research and development expenses	492,295	363,854	980,968	757,185
General and administrative expenses	41,955	46,585	85,807	88,406
Product support depreciation	402	2,909	1,119	3,423
Depreciation	<u>534,652</u>	<u>413,348</u>	<u>1,067,894</u>	<u>849,014</u>

Research and Development Expenses

Total research and development expenditure for the respective periods are as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Research and development expenses	<u>2,827,021</u>	<u>2,369,829</u>	<u>6,692,945</u>	<u>4,429,064</u>

Research and development expenditure principally reflects the effort required in product development of the tests we are developing. Research and development expenditure increased by 19% for the three months ended June 30, 2018 compared to the same period in the previous financial year and increased by 51% for the six months ended June 30, 2018 compared to the same period in the previous financial year. The increase in research and development expenses is primarily represented by the ramp up of the further tests in development for Siemens as we head towards regulatory clinical trials.

This financial year we also re-commenced work on our home PT-INR self testing device which has contributed to the increase in expenditure as well.

Research and development expenditure also include separation payments made to certain staff as part of management initiative to reduce expenditures. Whilst this represents a cost in this period, in future periods this will represent a savings.

UBI also implemented a companywide cash bonus program for its staff at the beginning of the current financial year to ensure its objectives are aligned to achieving customer related outcomes. The bonus accruals were reduced during the current quarter to reflect the cash bonus payments expected to be made during the current financial year.

While we have a degree of control as to how much we spend on research and development activities in the future, we cannot predict with certainty 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 a number of factors including achieving technical objectives, which are inherently uncertain, and subsequent regulatory approvals. We do however have project plans in place for all our development programs which we use to plan, manage and assess our projects. As part of this procedure, we also undertake commercial assessments of such projects to optimize outcomes and make go no-go decisions.

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, 2018 and 2017 were A\$2,255,396 and A\$1,472,841, respectively and A\$4,603,440 and A\$2,741,342 for the six months ended June 30, 2018 and 2017, respectively.

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

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

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

- consultant and employee related expenses, which include consulting fees, salaries and benefits;
- materials and consumables acquired for the research and development activities;
- external research and development expenses incurred under agreements with third party organizations and universities; and

- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation of leasehold improvements and equipment and laboratory and other supplies.

Our principal research and development activity is in blood coagulation testing.

In September 2011 we entered into a Collaboration Agreement with Siemens which was amended in September 2012 and March 2016, pursuant to which we will develop a range of test strips and reader products for the hospital point-of-care and alternative site coagulation testing markets. The first such product developed with Siemens, the Xprecia Stride™ Coagulation Analyzer, received CE mark approval on December 9, 2014 and FDA approval on October 4, 2016. The Xprecia Stride™ Coagulation Analyzer is now available for sale in North America, Latin America, Europe, the Middle East, Africa and Asia Pacific. In 2012, we entered into a Supply Agreement with Siemens under which we manufacture and supply the test strips for this product and will manufacture and supply the test strips for further tests still in development with Siemens. In addition, UBS is engaged in point-of-care coagulation product development for the consumer, home testing market which could be distributed globally.

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 including legal and maintenance fees incurred for patent applications, audit and accounting services. General and administrative expenses increased by 27% and 16% for the three and six months ended June 30, 2018 compared to the same period in the previous financial year. The increase in part is based upon separation payments made to certain staff as part of management initiative to reduce expenditures.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
General and administrative expenses	<u>1,960,023</u>	<u>1,543,633</u>	<u>3,750,094</u>	<u>3,230,162</u>

Interest Income

Interest income increased by 554% and 223%, respectively during the three months ended June 30, 2018 and 2017 when compared to the same period in the previous financial year. The increase in interest income is generally attributable to the higher amount of funds available for investment noting that in addition to Australian currency, from this financial year our U.S. denominated currency have been placed in term deposit accounts which generate interest income.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Interest income	<u>145,088</u>	<u>22,173</u>	<u>189,899</u>	<u>58,853</u>

Interest Expense

Interest expense relates to interest being charged on a short-term borrowing initiated by the Company in prior years. These short-term loans were taken out to fund our insurance premiums and are repaid during the financial year. The insurance premium at inception was A\$369,630 for the 2017 financial year. The interest rate was 2.60%. No short-term borrowings were initiated in 2018 and as a result there is no interest expense.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Interest expense	<u>0</u>	<u>2,883</u>	<u>0</u>	<u>6,727</u>

Financing Costs

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Interest expense	583,292	581,090	1,135,659	1,148,688
Warrants expense	34,859	53,965	67,870	106,678
Other debt issuance costs	<u>90,833</u>	<u>74,829</u>	<u>179,594</u>	<u>148,349</u>
	<u>708,985</u>	<u>709,884</u>	<u>1,383,123</u>	<u>1,403,715</u>

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.

There wasn't any significant movement in the financing costs during the period, noting that our loan is denominated in USD. For the three and six month period ending June 30, 2018, the period-over-period foreign currency movements relative to the AUD dollar would have had a favorable impact (exclusive of hedging impact) of A\$2,202 and an unfavorable impact of A\$13,029, respectively on our reported results..

Exchange gain

Exchange gain for the respective periods are as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Exchange gain	<u>230,021</u>	<u>138,283</u>	<u>229,373</u>	<u>641,547</u>

Foreign exchange gains and losses arise from the settlement of foreign currency transactions that are translated into the functional currency using the exchange rates prevailing at the dates of the transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

Critical Accounting Estimates and Judgments

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

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

(a) Revenue Recognition

Revenue is measured based on a consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

(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.

Time to Expiry

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

Risk Free Rate

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

(c) Income Taxes

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

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

(d) Impairment of Long-Lived Assets

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

(e) Warrants

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

Exercise Price at Valuation Date

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

Volatility

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

Time to Expiry

The warrants have a term of seven years.

Risk Free Rate

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

(f) Research and development tax incentive income

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

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

Financial Condition, Liquidity and Capital Resources

Net Financial Assets

Our net financial assets position is shown below:

	<u>Six Months Ended</u> <u>June 30,</u> <u>2018</u>	<u>Year Ended</u> <u>December 31,</u> <u>2017</u>
	A\$	A\$
Financial assets:		
Cash and cash equivalents	27,902,157	26,259,918
Accounts receivables	5,483,281	4,397,268
Total financial assets	<u>33,385,438</u>	<u>30,657,186</u>
Debt:		
Short term secured loan	20,152,531	0
Long term secured loan	0	19,029,076
Total debt	<u>20,152,531</u>	<u>19,029,076</u>
Net financial assets	<u>13,232,907</u>	<u>11,628,110</u>

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

On December 19, 2013 we entered into the Credit Agreement which was subsequently amended in January 2015 and on December 2017 with Lenders for a US\$25 million secured term loan. A first tranche loan of US\$15,000,000 was drawn on December 2013 and we elected not to draw down the additional US\$10,000,000. The term loan has a maturity date of July 1, 2019 and bears interest at 10.5% per annum. Interest payments are due quarterly over the term of the term loan and, other than as described elsewhere herein, we are not required to make payments of principal for amounts outstanding under the term loan until the Maturity Date. Subject to certain exceptions, the term loan is secured by substantially all of our assets, including our intellectual property. For further details, see Notes to Consolidated Financial Statements - *Summary of Significant Accounting Policies – Borrowings – Athyrium Credit Agreement*.

To a large extent, the increase in our USD denominated currency and the weakening of the AUD against the USD has resulted in an improvement to our net financial asset position. Note a major portion of our net financial assets/(liabilities) is denominated in USD, including our operating account and the long term secured loan hence is subject to variation with movements in exchange rates.

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

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

We regularly review all our financial assets for impairment. There were no impairments recognized as at June 30, 2018 or for the year ended December 31, 2017.

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, 2018 and December 31, 2017, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives is based on the market approach using observable market inputs, such as forward rates, and incorporates non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2.

We had no outstanding contracts as at June 30, 2018 and December 31, 2017. We recognized gains of nil for the periods ended June 30, 2018 and December 31, 2017. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the periods ended June 30, 2018 and December 31, 2017. 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:

	<u>Six Months Ended</u> <u>June 30,</u> <u>2018</u>	<u>Year Ended</u> <u>December 31,</u> <u>2017</u>
	A\$	A\$
Cash and cash equivalents	27,902,157	26,259,918
Working capital (current assets less current liabilities)	8,048,250	24,746,728
Ratio of current assets to current liabilities	1.29 : 1	3.97 : 1
Shareholders' equity per common share	0.07	0.07

The movement in cash and cash equivalents and working capital during the above periods was primarily due to cash flows generated from/used in operations including outflows arising from the effort required to complete the products in development, servicing of the secured loan and the timing of payments and accruals in the ordinary course of business.

With the weakening of the AUD against the USD, our cash and cash equivalents position has improved as a large portion of our funds is held in USD denominated currency. As at June 30, 2018 the loan pursuant to the Credit Agreement will be repaid within the next 12 months to the Lenders hence a significant decline in our working capital position as the loan is recorded as a current liability now.

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

Summary of Cash Flows

	<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
	A\$	A\$
Cash provided by/(used in):		
Operating activities	809,949	1,606,153
Investing activities	(280,231)	(725,243)
Financing activities	(256,410)	(264,407)
Net increase in cash, cash equivalents and restricted cash	<u>273,308</u>	<u>616,503</u>

Our net cash used in operating activities for all periods represents receipts offset by payments for our research and development projects including efforts involved in establishing and maintaining our manufacturing operations, interest on our long term secured loan and general and administrative expenditure. A decline in our operating cash position is reflective of the decline in our total revenues and an increase in our operating costs and expenses.

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

Our net cash used in financing activities in 2018 represents US\$200,000 fee paid to the Lenders for the December 2017 Amendment whilst for 2017, it represents repayment of the short-term borrowing.

Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2018 are:

	<u>AS</u>
Less than 1 year	555,703
1 – 3 years	73,195
3 – 5 years	16,223
More than 5 years	0
Total minimum lease payments	<u>645,121</u>

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, 2018 were as follows:

	<u>Payments Due By Period</u>				
	<u>Total</u>	<u>Less than 1</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>	<u>More than 5</u>
	<u>AS</u>	<u>year</u>	<u>AS</u>	<u>AS</u>	<u>years</u>
	<u>AS</u>	<u>AS</u>	<u>AS</u>	<u>AS</u>	<u>AS</u>
Asset Retirement Obligations (1)	2,600,000	2,600,000	0	0	0
Operating Lease Obligations (2)	645,121	555,703	73,195	16,223	0
Purchase Obligations (3)	863,905	863,905	0	0	0
Short term secured loan (4)	20,152,531	20,152,531	0	0	0
Financing costs (5)	2,383,135	2,383,135	0	0	0
Other liability (6)	2,771,753	2,771,753	0	0	0
Other Long-Term Liabilities on Balance Sheet (7)	62,083	0	53,879	5,771	2,433
Total	<u>29,478,528</u>	<u>29,327,027</u>	<u>127,074</u>	<u>21,994</u>	<u>2,433</u>

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

Segments

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

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

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

Item 3 Quantitative and Qualitative Disclosures About Market Risk

As a “smaller reporting company”, we are not required to provide the information called for by this Item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. At the end of the period covered by this report, the Company and management evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Rick Legleiter, Chief Executive Officer, and Sales Balak, Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Legleiter 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, 2018, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation referred to above in this Item 9A that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 2017 Annual Report on Form 10-K filed with the SEC on February 23, 2018 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 2017 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, 2017.

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, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income/(Loss), (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity and Comprehensive Income/(Loss), (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements	Filed herewith

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: August 13, 2018

By: /s/ Rick Legleiter
Rick Legleiter
Principal Executive Officer

Date: August 13, 2018

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

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

I, Rick Legleiter, certify that:

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

Date: August 13, 2018

/s/ Rick Legleiter

Rick Legleiter
Principal Executive Officer
Universal Biosensors, Inc.

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

I, Salesh Balak, certify that:

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

Date: August 13, 2018

/s/ Salesh Balak

Salesh Balak
Principal Financial Officer
Universal Biosensors, Inc.

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, 2018, 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 13th day of August, 2018.

/s/ Rick Legleiter
Rick Legleiter
Principal Executive Officer

/s/ Satesh Balak
Satesh 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.