



**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 March 31, 2014

Commission File Number: 000-52607

Universal Biosensors, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

Not Applicable
(Zip Code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 175,608,938 shares of Common Stock, U.S.\$0.0001 par value, outstanding as of April 24, 2014.



UNIVERSAL BIOSENSORS, INC.

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1 <u>Financial Statements</u>	
1) <u>Consolidated condensed balance sheets at March 31, 2014 and December 31, 2013 (unaudited)</u>	1
2) <u>Consolidated condensed statements of comprehensive income for the three months ended March 31, 2014 and 2013 (unaudited)</u>	2
3) <u>Consolidated condensed statements of changes in stockholder’s equity and comprehensive income for the period ended March 31, 2014 and 2013 (unaudited)</u>	3
4) <u>Consolidated condensed statements of cash flows for the three months ended March 31, 2014 and 2013 (unaudited)</u>	4
5) <u>Notes to consolidated condensed financial statements (unaudited)</u>	5
Item 2 <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4 <u>Controls and Procedures</u>	33
PART II OTHER INFORMATION	
Item 1 <u>Legal Proceedings</u>	34
Item 1A <u>Risk Factors</u>	34
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 3 <u>Defaults Upon Senior Securities</u>	34
Item 4 <u>Mine Safety Disclosures</u>	34
Item 5 <u>Other Information</u>	34
Item 6 <u>Exhibits</u>	34
Exhibit 10.34	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32	
Exhibit 101	
<u>SIGNATURES</u>	35

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”).



Universal Biosensors, Inc.

Item 1 Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
	<u>A\$</u>	<u>A\$</u>
ASSETS		
Current assets:		
Cash and cash equivalents	19,464,748	23,742,422
Inventories, net	0	4,207
Accounts receivable	2,053,303	2,167,867
Prepayments	1,127,214	825,800
Other current assets	9,602,138	9,049,283
Total current assets	32,247,403	35,789,579
Non-current assets:		
Property, plant and equipment	34,093,220	33,816,691
Less accumulated depreciation	<u>(18,513,611)</u>	<u>(17,906,571)</u>
Property, plant and equipment - net	<u>15,579,609</u>	<u>15,910,120</u>
Other non-current assets	<u>2,920,000</u>	<u>2,920,000</u>
Total non-current assets	18,499,609	18,830,120
Total assets	<u>50,747,012</u>	<u>54,619,699</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	991,310	974,754
Accrued expenses	2,260,730	2,329,440
Deferred revenue	929,555	957,916
Borrowings	331,663	0
Employee entitlements provision	<u>1,231,924</u>	<u>1,160,177</u>
Total current liabilities	5,745,182	5,422,287
Non-current liabilities:		
Asset retirement obligations	2,600,000	2,549,928
Employee entitlements provision	152,768	147,662
Long term secured loan	15,432,092	15,857,966
Deferred revenue	<u>929,555</u>	<u>957,916</u>
Total non-current liabilities	19,114,415	19,513,472
Total liabilities	<u>24,859,597</u>	<u>24,935,759</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 in 2014 (2013: nil)		
Common stock, US\$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 175,608,938 shares in 2014 (2013: 175,600,605)	17,560	17,560
Additional paid-in capital	94,756,244	94,955,051
Accumulated deficit	(64,990,359)	(53,356,552)
Current year loss	(3,597,718)	(11,633,807)
Accumulated other comprehensive income	<u>(298,312)</u>	<u>(298,312)</u>
Total stockholders' equity	25,887,415	29,683,940
Total liabilities and stockholders' equity	<u>50,747,012</u>	<u>54,619,699</u>

See accompanying notes to the financial statements

**Universal Biosensors, Inc.****Consolidated Condensed Statements of Comprehensive Income (Unaudited)**

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Revenue		
Revenue from products	0	3,745,818
Revenue from services	1,351,951	1,063,156
Total revenue	1,351,951	4,808,974
Operating costs & expenses		
Cost of goods sold	0	3,713,714
Cost of services	16,145	77,625
Research and development	4,915,187	4,457,929
General and administrative	1,383,406	1,307,665
Total operating costs & expenses	6,314,738	9,556,933
Loss from operations	(4,962,787)	(4,747,959)
Other income/(expense)		
Interest income	54,348	157,302
Interest expense	(6,362)	(5,660)
Financing costs	(657,271)	0
Other	1,974,354	(46,352)
Total other income/(expense)	1,365,069	105,290
Net loss before tax	(3,597,718)	(4,642,669)
Income tax benefit/(expense)	0	0
Net loss	(3,597,718)	(4,642,669)
Earnings per share		
Basic and diluted net loss per share	(0.02)	(0.03)
Other comprehensive gain, net of tax:		
Unrealized gain on derivative instruments	0	12,527
Other comprehensive gain	0	12,527
Comprehensive loss	(3,597,718)	(4,630,142)

See accompanying notes to the financial statements.



Universal Biosensors, Inc.

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

	Ordinary shares		Additional Paid-in Capital A\$	Accumulated Deficit A\$	Accumulated Other Comprehensive Income A\$	Total Stockholders' Equity A\$
	Shares	Amount A\$				
Balances at January 1, 2013	173,959,863	17,396	93,009,607	(53,356,552)	(298,312)	39,372,139
Net loss	0	0	0	(4,642,669)	0	(4,642,669)
Other comprehensive gain	0	0	0	0	12,527	12,527
Stock option expense	0	0	166,452	0	0	166,452
Balances at March 31, 2013	<u>173,959,863</u>	<u>17,396</u>	<u>93,176,059</u>	<u>(57,999,221)</u>	<u>(285,785)</u>	<u>34,908,449</u>
Balances at January 1, 2014	175,600,605	17,560	94,955,051	(64,990,359)	(298,312)	29,683,940
Net loss	0	0	0	(3,597,718)	0	(3,597,718)
Exercise of stock options issued to employees	8,333	0	0	0	0	0
Stock option expense	0	0	(198,807)	0	0	(198,807)
Balances at March 31, 2014	<u>175,608,938</u>	<u>17,560</u>	<u>94,756,244</u>	<u>(68,588,077)</u>	<u>(298,312)</u>	<u>25,887,415</u>

See accompanying notes to the financial statements.



Universal Biosensors, Inc.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Cash flows from operating activities:		
Net loss	(3,597,718)	(4,642,669)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation and amortization	607,038	633,315
Share based payments expense	(198,807)	166,452
Loss on fixed assets disposal	0	0
Unrealized foreign exchange losses	(522,744)	0
Financing costs - amortization of warrants	44,823	0
Change in assets and liabilities:		
Inventory	4,207	72,843
Accounts receivables	852,698	(827,017)
Prepaid expenses and other current assets	(854,269)	(395,779)
Deferred revenue	(56,722)	0
Employee entitlements	76,853	89,966
Accounts payable and accrued expenses	279,160	957,304
Net cash used in operating activities	<u>(3,365,481)</u>	<u>(3,945,585)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(140,720)	(50,890)
Net cash used in investing activities	<u>(140,720)</u>	<u>(50,890)</u>
Cash flows from financing activities:		
Proceeds from borrowings	552,772	767,471
Repayment of borrowings	(221,109)	(191,868)
Financing costs	(549,678)	0
Net cash provided by/(used in) financing activities	<u>(218,015)</u>	<u>575,603</u>
Net decrease in cash and cash equivalents	(3,724,216)	(3,420,872)
Cash and cash equivalent at beginning of period	23,742,422	23,649,417
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	(553,458)	0
Cash and cash equivalents at end of period	<u><u>19,464,748</u></u>	<u><u>20,228,545</u></u>

See accompanying notes to the financial statement



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Organization of the Company

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

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

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

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

- Coagulation testing market – we are working with Siemens Healthcare Diagnostics, Inc. (“Siemens”) to develop a range of products for the point-of-care coagulation market pursuant to a collaboration agreement with Siemens (“Collaboration Agreement”) and, subject to being approved for sale, plan to manufacture test strips for these products under a supply agreement with Siemens (“Supply Agreement”). We are also developing our own Prothrombin Time International Normalized Ratio (“PT-INR”) test targeted at the patient self-test market and intend to enter into distribution agreements with respect to that test.
- Blood glucose – we expect to provide services to LifeScan as required from time to time, pursuant to a Master Services and Supply Agreement (“Master Services and Supply Agreement”) and a development and research agreement (“Development and Research Agreement”) with LifeScan.
- Other electrochemical-cell based tests – we are working on proving the broader applicability of our technology platform, including tests based on enzymatic, immunoassay and molecular diagnostic methods. We may seek to enter into collaborative arrangements, strategic alliances or distribution agreements with respect to any tests arising from this work.

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 three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the financial statements and footnotes thereto as of and for the year ended December 31, 2013, included in the Form 10-K of Universal Biosensors, Inc.

The year-end consolidated condensed balance sheets data as at December 31, 2013 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain prior year amounts in the consolidated condensed financial statements have been reclassified to conform to the current presentation.

Basis of Presentation

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Cash & Cash Equivalents

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

Short-Term Investments (Held-to-maturity)

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

Concentration of Credit Risk and Other Risks and Uncertainties

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

Derivative Instruments and Hedging Activities

Derivative financial instruments

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

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.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Cash flow hedges

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

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

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

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

Derivative Instruments and Hedging Activities

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

Inventory

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

	<u>Three Months</u> <u>Ended March 31,</u> <u>2014</u> A\$	<u>Year Ended</u> <u>December 31,</u> <u>2013</u> A\$
Raw materials	0	4,169
Work in progress	0	38
Finished goods	0	0
	<u>0</u>	<u>4,207</u>

Receivables

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

	<u>Three Months</u> <u>Ended March 31,</u> <u>2014</u> A\$	<u>Year Ended</u> <u>December 31,</u> <u>2013</u> A\$
Accounts receivable	2,053,303	2,167,867
Allowance for doubtful debts	0	0
	<u>2,053,303</u>	<u>2,167,867</u>

Property, Plant, and Equipment

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

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

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

Research and Development

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Research and development expenses for the three months ended March 31, 2014 and 2013 are as follows:

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Research and development expenses	<u>4,915,187</u>	<u>4,457,929</u>

Income Taxes

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

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

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

Asset Retirement Obligations

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

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

Our overall ARO changed as follows:

	Three Months	Year Ended
	Ended March 31,	December 31,
	2014	2013
	A\$	A\$
Opening balance	2,549,928	2,351,464
Accretion expense	50,072	198,464
Ending balance	<u>2,600,000</u>	<u>2,549,928</u>

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.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

- Cost approach – based on the cost to acquire or construct comparable assets less an allowance for functional and/or economic obsolescence.
- Income approach – based on the present value of a future stream of net cash flows

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

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

Impairment of Long-Lived Assets

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

Australian Goods and Services Tax (GST)

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

Revenue Recognition

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

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

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

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

Where our agreements contain multiple elements, or deliverables, such as the manufacture and sale of products, provision of services or research and development activities, they are assessed to determine whether separate delivery of the individual elements of such arrangements comprises more than one unit of accounting. Where an arrangement can be



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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".

Product and Service Agreements

In October 2007, the Company and LifeScan entered into a Master Services and Supply Agreement, under which the Company would provide certain services to LifeScan in the field of blood glucose monitoring and act as a non-exclusive manufacturer of blood glucose test strips. The Master Services and Supply Agreement was subsequently amended and restated in May 2009. The Company has concluded 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.

Research and Development Agreement

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

Of the six milestones, the Company has delivered on two as of March 31, 2014:

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

There were no revenues recognized for the three months ended March 31, 2014 and March 31, 2013 relating to the delivery of the milestones pursuant to the Collaboration Agreement. Of the total amount of A\$4,230,349 (equivalent to US\$4,285,714) recognized as revenue for the 2012 financial year, A\$2,961,245 (equivalent to US\$3.0 million) relates to the achievement of the two milestones whilst the balance relates to a portion of the deferred US\$3 million up-front payment allocated to these milestones based upon their relative estimate of selling price.

Interest income

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

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 Company has recorded research and development tax incentive income of A\$1,990,651 under the caption “Other” in the consolidated condensed statements of comprehensive income for the three months ended March 31, 2014. There was no research and development tax incentive income recognized for the three months ended March 31, 2013 as the criteria was not met.

Foreign Currency

Functional and reporting currency

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

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

Transactions and balances

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

The Company has recorded foreign currency transaction losses of A\$16,297 and A\$46,352 for the three month period ended March 31, 2014 and 2013, respectively.

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

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

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

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Our contingent liabilities as at March 31, 2014 are as follows:

- we have a potential obligation to pay 50% of the patent fees paid by LifeScan in respect of the patents we license from LifeScan prior to the date of the first commercial sale of a non-glucose product that utilizes the technology licensed from LifeScan and 50% of the patent fees incurred by LifeScan in respect of such patents thereafter. In the event of the first commercial sale of a non-glucose product, the initial amount that could be paid by us to LifeScan is projected to be between US\$1.3 million to US\$1.6 million. We would have the right to make this payment either as a lump sum within 45 days of receipt of the supporting documentation from LifeScan or in equal monthly installment payments during the 24 months subsequent to the date of receipt of the supporting documentation. Currently the non-glucose products continue to be in the research and development phase.
- during 2009, LifeScan chose not to proceed with the registration of the then current product but to proceed with an enhanced product, called OneTouch® Verio®, and acknowledged that there would be a delay as a result. As a result of this change, LifeScan agreed to pay additional amounts per strip manufactured by us in 2010 and 2011 up to a specified volume limit (“manufacturing initiation payments”). At the same time, we agreed to pay LifeScan a marketing support payment in each of the two years following the first year in which 1 billion strips are sold by LifeScan equal to 40% of the total manufacturing initiation payments made. The total amount of marketing support payments expected to be paid to LifeScan is approximately US\$2 million. Based on the current volume of strips sold by LifeScan and that we have no visibility of future sales by LifeScan, it is uncertain whether we would be required to make this marketing support payment.
- we have engaged Planet Innovation Pty Ltd (“Planet Innovation”) to assist us with design and engineering for future analyzers. As part of the agreement, Planet Innovation will be paid a success payment upon the formal acceptance of the analyzer for commercial manufacture and a further success payment on launch sign-off for the first commercial sale of the analyzer. All of the analyzers Planet Innovation are currently working on are in the research and development phases, and therefore at this stage their commercial manufacture and sale and the amount of any future success payment cannot be reliably estimated.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Patent and License Costs

Legal and maintenance fees incurred for patent application costs have been charged to expense and reported in research and development expense. Legal and maintenance fees incurred for patents relating to commercialized products are capitalized and amortized over the life of the patents.

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 March 31, 2014 and December 31, 2013 are considered operating leases. The costs of operating leases are charged to the statement of comprehensive income on a straight-line basis over the lease term.

Stock-based Compensation

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

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

(a) Stock Option Plan

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

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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			
	Dec-13	Dec-13	Aug-13	Mar-13
Exercise Price (A\$)	Nil	0.49	0.71	0.79
Share Price at Grant Date (A\$)	0.49	0.49	0.71	0.79
Volatility	63%	63%	64%	65%
Expected Life (years)	7	7	7	7
Risk Free Interest Rate	3.82%	3.82%	3.54%	3.37%
Fair Value of Option (A\$)	0.49	0.28	0.41	0.45

Stock option activity during the current period is as follows:

	Number of shares	Weighted average exercise price A\$
Balance at December 31, 2013	10,606,099	1.07
Granted	0	0.00
Exercised	(8,333)	0.00
Lapsed	(502,329)	1.03
Balance at March 31, 2014	10,095,437	1.07

The number of options exercisable as at March 31, 2014 and March 31, 2013 was 8,522,557 and 9,264,906, respectively. The total stock compensation expense recognized in income statement as at March 31, 2014 and March 31, 2013 was (A\$198,807) and A\$166,452, respectively.

As of March 31, 2014, there was A\$633,072 of unrecognized compensation expense related to unvested share-based compensation arrangements under the Employee Option Plan. This expense is expected to be recognized as follows:

Fiscal Year	A\$
2014	517,779
2015	94,372
2016	20,921
	<u>633,072</u>

The aggregate intrinsic value for all options outstanding as at March 31, 2014 and March 31, 2013 was zero.

(b) Restricted Share Plan

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

The table below sets forth the RSUs issued by the Company since January 1, 2013:

	Number of Restricted Shares Issued	Market Value of Restricted Shares Issued (A\$)
May, 2013	917	1,000
December, 2013	142,800	69,972

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

	Number of shares	Weighted average issue price A\$
Balance at December 31, 2013	260,801	0.72
Release of restricted shares	(4,997)	0.80
Balance at March 31, 2014	255,804	0.72

Employee Benefit Costs

The Company contributes to standard defined contribution superannuation funds on behalf of all employees. This contribution amount, formerly equal to 9% of each employee’s salary, was increased by law to 9.25% from July 1, 2013 of each such employee’s salary. Superannuation is a compulsory savings program whereby employers are required to pay a portion of an employee’s remuneration to an approved superannuation fund that the employee is typically not able to access until they are retired. The Company permits employees to choose an approved and registered superannuation fund into which the contributions are paid. Contributions are charged to the consolidated condensed statements of comprehensive income as they become payable.

Net Loss per Share and Anti-dilutive Securities

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

Total Comprehensive Income

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

	Before-Tax Amount A\$	Tax (Expense)/ Benefit A\$	Net-of-Tax Amount A\$
Three months ended March 31, 2014			
Unrealized gain on derivative instruments	0	0	0
Reclassification for gains realized in net income	0	0	0
Other comprehensive gain	0	0	0
Three months ended March 31, 2013			
Unrealized gain on derivative instruments	12,527	0	12,527
Reclassification for gains realized in net income	0	0	0
Other comprehensive gain	12,527	0	12,527

Recent Accounting Pronouncements

On February 2013, the FASB issued ASU 2013-04 which requires an entity that is jointly and severally liable to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement. ASU 2013-04 is effective for fiscal years (and interim periods within those fiscal years) beginning on or after December 15, 2013. The adoption of this guidance has not had a material impact on the company’s financial statements.

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

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

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

Related Party Transactions

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

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

In August 2013, we entered into a consulting agreement with SpeedX pursuant to which we will provide certain services relating to the establishment and maintenance of a quality management system at SpeedX. Consulting fees expected to be received under this agreement are approximately A\$235,000 and a success fee of A\$50,000 will be paid upon successful ISO13485 certification of SpeedX provided the certification audit occurs within 12 months of the commencement date of this consultancy agreement.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Messrs Denver and Jane are directors of the Company and Speedx. Talu Ventures Pty Ltd, of which Mr. Jane is a director, is a fund manager for a fund which holds approximately 33% of the issued shares in Speedx. Until September 27, 2013, PFM Cornerstone Limited held approximately 6% of our shares (this holding has since decreased to approximately 0.5% of our shares) and PFM Cornerstone Limited also holds approximately 33% of the issued shares in Speedx. Messrs Denver and Hanley are directors of the Company and PFM Cornerstone Limited.

Borrowings

Future maturities, interest and other payments under the Company’s long term secured loan pursuant to the credit agreement (described below) as of March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014		December 31, 2013	
	US\$	A\$	US\$	A\$
2014	2,049,375		2,532,500	
2015	1,749,167		1,749,167	
2016	1,732,500		1,732,500	
2017	1,732,500		1,732,500	
2018	16,732,500		16,732,500	
Thereafter	0		0	
Total minimum payments	23,996,042		24,479,167	
Less amount representing interest and other fees	(8,996,042)		(9,479,167)	
Gross balance of long term debt	15,000,000		15,000,000	
Less fair value of warrants recorded within loan (a)	(815,655)		(815,655)	
Plus amortization of warrants	45,587		5,363	
Total carrying value	14,229,932	15,432,092	14,189,708	15,857,966
Less current portion	0	0	0	0
Total carrying value, non-current portion	14,229,932	15,432,092	14,189,708	15,857,966

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

Athyrium Credit Agreement

On December 19, 2013 (“Closing Date”), UBI and its wholly owned subsidiary, UBS (together UBI and UBS, the “Transaction Parties”) entered into a credit agreement with Athyrium Opportunities Fund (A) LP (“Athyrium A”), as administrative agent (the “Administrative Agent”) and as a lender, and Athyrium Opportunities Fund (B) LP (“Athyrium B”) as a lender (Athyrium A and Athyrium B together with any other lenders party thereto from time to time, the “Lenders”) for a secured term loan of up to US\$25 million (“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 as follows:

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



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

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

UBS has paid a non-refundable fee of US\$625,000 to the Lenders on the Closing Date (being 2.5% of the aggregate credit facility) and a 2% commitment fee based on any available unused borrowing commitment under the Credit Agreement until January 30, 2015. The Lenders will also be entitled to receive 30% of the net proceeds of milestone payments paid under the Collaboration Agreement by and among UBS, UBI and Siemens Healthcare Diagnostics, Inc., up to a maximum of US\$600,000 in the aggregate. 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, or as may be incurred in connection with the enforcement or protection of their rights.

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

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

Other

In January 2014, UBS entered into an arrangement with Pacific Premium Funding to fund the Group’s insurance premium. The total amount financed was A\$568,677 at inception. Interest is charged at a fixed rate of 2.88% per annum and the short-term borrowing will be fully repaid within the 2014 financial year. The short-term borrowing is secured by the insurance premium refund. In February 2013, UBS entered into an arrangement with Lumley Finance Ltd to fund the Group’s insurance premium. The total amount financed was A\$767,471 at inception. Interest was charged at a fixed rate of 2.95% per annum and the short-term borrowing was fully repaid by December 2013. The short-term borrowing was secured by the insurance premium refund.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Warrants

Pursuant to the Athyrium Credit Agreement, UBS issued to the Lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI's common stock in the form of CDIs at the Exercise Price.

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

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

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

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

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

Restricted Cash

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

	<u>Three Months Ended March 31,</u> <u>2014</u> A\$	<u>Year Ended December 31,</u> <u>2013</u> A\$
Financial covenant pursuant to the Credit Agreement	2,600,000	2,600,000
Letter of credit issued in favour of a supplier	0	575,000
Collateral for facilities	320,000	320,000
	<u>2,920,000</u>	<u>3,495,000</u>



Universal Biosensors, Inc.

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

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

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

Our Business

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

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

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

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

- Coagulation testing market – we are working with Siemens to develop a range of products for the point-of-care coagulation market pursuant to a Collaboration Agreement and, subject to being approved for sale, plan to manufacture test strips for these products under a Supply Agreement with Siemens. We are also developing our own PT-INR test targeted at the patient self-test market and intend to enter into distribution agreements with respect to that test.
- Blood glucose – we expect to provide services to LifeScan as required from time to time, pursuant to a Master Services and Supply Agreement and a Development and Research Agreement with LifeScan.
- Other electrochemical-cell based tests – we are working on proving the broader the applicability of our technology platform, including tests based on enzymatic, immunoassay and molecular diagnostic methods. We may seek to enter into collaborative arrangements, strategic alliances or distribution agreements with respect to any tests arising from this work.

Results of Operations

Analysis of Consolidated Revenue

Our total revenue decreased by 72% during the three months ended March 31, 2014 to A\$1,351,951 compared to the same period in the previous financial year.



Universal Biosensors, Inc.

The movement in total revenue during these periods was due to the following factors:

- Revenue from products – we manufactured OneTouch® Verio® strips for LifeScan and generated product revenue up until the end of the 2013 financial year. With effect from December 31, 2013, we ceased the manufacture of the OneTouch® Verio® blood glucose testing product.
- Revenue from services - the increase during the three months ended March 31, 2014 is primarily represented by continued growth in Quarterly Service Fees.

Revenue from Products

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

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Revenue from products	0	3,745,818
Cost of goods sold	0	(3,713,714)
	<u>0</u>	<u>32,104</u>

Between 2009 and 2013, UBS acted as a non-exclusive manufacturer of blood glucose test strips for LifeScan’s OneTouch® Verio® blood glucose testing product. With effect from December 31, 2013, UBS ceased the manufacture of the OneTouch® Verio® blood glucose test strips for LifeScan. Manufacture of the OneTouch® Verio® strips has been transitioned to LifeScan’s existing facility in Inverness, Scotland. We currently do not manufacture any other products and do not expect to generate revenues from products until we are able to manufacture test strips pursuant to the Supply Agreement with Siemens.

Revenue from Services

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

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

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

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Revenue from services:		
Quarterly service fee	1,213,059	840,116
Other services	138,892	223,040
	<u>1,351,951</u>	<u>1,063,156</u>
Cost of services	(16,145)	(77,625)
	<u>1,335,806</u>	<u>985,531</u>

Quarterly service fee - The quarterly service fee increased by 44% during the three months ended March 31, 2014 compared to the same period in the previous financial year, reflecting ongoing market penetration and growth.



Universal Biosensors, Inc.

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

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

Contract research and development - The nature and scope of contract research and development is determined by our customers and partners based upon their requirements and therefore our revenues and margins tend to fluctuate. We did not perform or generate any revenue from contract research and development during the three months ended March 31, 2014 and 2013.

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

Research and Development Expenses

Research and development expenses are related to developing electrochemical cell platform technologies. Research and development expenses consist of costs associated with research activities, as well as costs associated with our product development efforts, including pilot manufacturing costs. Research and development expenses include:

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

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

(a) Blood coagulation

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

(b) Immunoassay

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

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



Universal Biosensors, Inc.

(c) DNA/RNA

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

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

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Research	426,303	405,256
Development	4,488,884	4,052,673
Research and development expenses	4,915,187	4,457,929

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

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

Research and development expenditure increased by 10% during the three months ended March 31, 2014 compared to the same period previous financial year. The increase principally reflects the effort required to complete the final stages of the development phase prior to launch of the four tests we are undertaking. The first of these tests, the Prothrombin Time test, is anticipated to launch in the current financial year.

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

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Depreciation	583,987	151,323
Share based payments	(151,797)	72,394
	432,190	223,717

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

In addition, our business strategy contemplates that we may enter into collaborative arrangements with third parties for one or more of our non-blood glucose programs. In the event that we are successful in securing such third party collaborative arrangements, the third party may direct the research and development activities and may contribute towards



Universal Biosensors, Inc.

all or part of the cost of these activities, both of which will influence our research and development expenditure. Research and development activities undertaken on behalf of our customers and partners were A\$3,019,767 and A\$3,400,425, respectively for the three months ended March 31, 2014 and 2013.

General and Administrative Expenses

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

General and administrative expenses did not fluctuate significantly for the respective periods and are as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
	A\$	A\$
General and administrative expenses	<u>1,383,406</u>	<u>1,307,665</u>

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

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
	A\$	A\$
Depreciation	23,051	18,577
Share based payments	(47,010)	79,148
	<u>(23,959)</u>	<u>97,725</u>

Interest Income

Interest income decreased by 65% during the three months ended March 31, 2014 compared to the same period in the previous financial year. The decrease in interest income is generally attributable to the lower amount of funds available for investment in Australian currency. A large portion of our funds is held in US denominated currency which currently does not produce any investment interest.

Interest Expense

Interest expense of A\$6,362 for the three months ended March 31, 2014 relates to a 2.88% interest being charged on a short-term borrowing initiated in January 2014. In comparison, interest expense of A\$5,660 for the three months ended March 31, 2013 relates to a 2.95% interest being charged on a short-term borrowing initiated in February 2013.



Universal Biosensors, Inc.

Financing Costs

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

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Interest expense	443,660	0
Warrants expense	44,823	0
Other debt issuance costs	168,788	0
	<u>657,271</u>	<u>0</u>

Interest expense relates to applicable interest of 10.5% levied on the loan. The fair value of the warrant issued to the Lenders was estimated using the Trinomial Lattice model. The debt issuance costs were recorded as deferred issuance costs and are amortized as interest expense, using the effective interest method, over the term of the loan.

Other

The Company has recorded research and development tax incentive income of A\$1,990,651 for the three months ended March 31, 2014 under this caption. The Company determined that it qualified and became eligible for this rebate during the third quarter of the 2013 financial year. The balance is primarily represented by foreign exchange movements arising from the settlement of foreign denominated transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

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

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

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

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

Critical Accounting Estimates and Judgments

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

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

(a) Revenue Recognition

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

In addition, the Company enters into arrangements, which contain multiple revenue generating activities. The revenue for these arrangements is recognized as each activity is performed or delivered, based on the relative fair value



Universal Biosensors, Inc.

and the allocation of revenue to all deliverables based on their relative selling price. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocation of revenue to deliverables, vendor-specific objective evidence, third-party evidence of selling price and the Company's best estimate of selling price. The Company's process for determining its best estimate of selling price for deliverables without vendor-specific objective evidence or third-party evidence of selling price involves management's judgment. The Company's process considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable.

(b) Stock-Based Compensation

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

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

Share Price and Exercise Price at Valuation Date

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

Volatility

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

Time to Expiry

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

Risk Free Rate

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

(c) Income Taxes

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

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

(d) Impairment of Long-Lived Assets

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



Universal Biosensors, Inc.

(e) Warrants

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

Share Price and Exercise Price at Valuation Date

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

Volatility

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

Time to Expiry

The warrants have a term of seven years.

Risk Free Rate

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

Financial Condition, Liquidity and Capital Resources

Net Financial Assets

Our net financial assets position is shown below:

	<u>Three Months Ended</u> <u>March 31,</u> <u>2014</u> A\$	<u>Year Ended</u> <u>December 31,</u> <u>2013</u> A\$
Financial assets:		
Cash and cash equivalents	19,464,748	23,742,422
Accounts receivables	2,053,303	2,167,867
Total financial assets	<u>21,518,051</u>	<u>25,910,289</u>
Debt:		
Short term borrowings	331,663	0
Long term secured loan	15,432,092	15,857,966
Total debt	<u>15,763,755</u>	<u>15,857,966</u>
Net financial assets	<u><u>5,754,296</u></u>	<u><u>10,052,323</u></u>

Since inception, we have financed our business primarily through the issuance of equity securities, funding from strategic partners and government grants, revenue from services and product sales.



Universal Biosensors, Inc.

On December 19, 2013 we entered into the Credit Agreement with Lenders for a US\$25 million secured term loan. The term loan has a maturity date of December 19, 2018 and bears interest at 10.5% per annum. Interest payments are due quarterly over the five-year term of the term loan and, other than as described further below, we are not required to make payments of principal for amounts outstanding under the term loan until the Maturity 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*.

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

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

We regularly review all our financial assets for impairment. There were no impairments recognized for the three months ended March 31, 2014 and for the year ended December 31, 2013.

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 March 31, 2014 and year ended December 31, 2013, 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 March 31, 2014 and December 31, 2013. We recognized gains of nil for the periods ended March 31, 2014 and December 31, 2013. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the periods ended March 31, 2014 and December 31, 2013. 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>Three Months Ended</u> <u>March 31,</u> <u>2014</u>	<u>Year Ended</u> <u>December 31,</u> <u>2013</u>
	A\$	A\$
Cash and cash equivalents	19,464,748	23,742,422
Working capital	26,502,221	30,367,292
Ratio of current assets to current liabilities	5.61 : 1	6.60 : 1
Shareholders' equity per common share	0.15	0.17

The movement in cash and cash equivalents and working capital during the above periods was primarily due to reductions to outflows of cash and to the timing of cash receipts, payments, sales and accruals in the ordinary course of business. In addition to the reductions resulting from operating outflows of cash, a first tranche loan of US\$15,000,000 (equivalent to A\$16,909,029) was drawn in December 2013 by UBS pursuant to the Athyrium Credit Agreement.

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



Universal Biosensors, Inc.

Summary of Cash Flows

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Cash provided by/(used in):		
Operating activities	(3,365,481)	(3,945,585)
Investing activities	(140,720)	(50,890)
Financing activities	(218,015)	575,603
Net decrease in cash and cash equivalents	<u>(3,724,216)</u>	<u>(3,420,872)</u>

Our net cash used in operating activities for all periods is for our research and development projects including efforts involved in establishing our manufacturing operations and general and administrative expenditure. Our net cash used in operating activities for the period ended March 31, 2013 was also consumed in the manufacture of OneTouch® Verio® strips. The outflows during these periods have been partially offset by receipts from our customers and partners.

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

An outflow of A\$549,678 included within our financing activities relates to the payment of interest and other debt issuance costs pursuant to the Athyrium Credit Agreement for the period ended March 31, 2014. We also took advantage of a favorable borrowing opportunity to prepay our annual insurances. The net proceeds (proceeds less repayments) of A\$331,663 and A\$575,603 is reflected as a financing activity for the periods ended March 31, 2014 and 2013, respectively.

Off-Balance Sheet Arrangement

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

	A\$
Less than 1 year	535,280
1 – 3 years	1,126,859
3 – 5 years	1,199,328
More than 5 years	0
Total minimum lease payments	<u>2,861,467</u>

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



Universal Biosensors, Inc.

Contractual Obligations

Our future contractual obligations at March 31, 2014 were as follows:

	Payments Due By Period				
	Total	Less than 1	1 – 3 years	3 – 5 years	More than 5
	A\$	year	A\$	A\$	years
Asset Retirement Obligations (1)	2,600,000	0	0	2,600,000	0
Operating Lease Obligations (2)	2,861,467	535,280	1,126,859	1,199,328	0
Purchase Obligations (3)	940,639	940,639	0	0	0
Long term secured loan (4)	15,432,092	0	0	15,432,092	0
Financing costs (5)	9,756,037	2,222,508	3,775,802	3,757,727	0
Other Long-Term Liabilities on Balance Sheet (6)	152,768	0	88,576	62,736	1,456
Total	31,743,003	3,698,427	4,991,237	23,051,883	1,456

- (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 Athyrium Credit Agreement
- (5) Interest and other debt issuance costs payable to the lenders pursuant to the Athyrium Credit Agreement
- (6) 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.

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

	Three Months Ended March 31,	
	2014	2013
	A\$	A\$
Home country - Australia	110,618	157,302
Foreign countries:		
Scotland	0	3,745,818
U.S.A.	47,484	223,040
Switzerland	1,248,197	840,116
Total - foreign countries	1,295,681	4,808,974
Total income	1,406,299	4,966,276
% of total income derived from:		
LifeScan	89%	92%
Siemens	3%	4%

We continue to derive significant revenues from LifeScan.

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



Universal Biosensors, Inc.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Financial Risk Management

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

Foreign Currency Market Risk

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

Interest Rate Risk

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

Inflation

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



Universal Biosensors, Inc.

Item 4. Controls and Procedures

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

Changes in Internal Control Over Financial Reporting. During the fiscal quarter ended March 31, 2014, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation referred to above in this Item 4 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Universal Biosensors, Inc.

PART II

Item 1 Legal Proceedings

None.

Item 1A Risk Factors

None.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

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, 2013.

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>
10.34	Deed of Extension and Variation of Lease between Universal Biosensors Pty Ltd and Bowmayne Pty Ltd dated March 24, 2014	Filed herewith
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 March 31, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements text	As provided in Rule 406T of Regulation S-T, this information is furnished herewith and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934



200GC&TXtP%w&My6B

Universal Biosensors, Inc.

SIGNATURES

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

UNIVERSAL BIOSENSORS, INC.
(Registrant)

Date: April 24, 2014

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

Date: April 24, 2014

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



INDEX TO EXHIBITS
Quarterly Report on Form 10-Q
Dated April 24, 2014

<u>Exhibit No</u>	<u>Description</u>	<u>Location</u>
10.34	Deed of Extension of Lease between Universal Biosensors Pty Ltd and Bowmayne Pty Ltd dated March 24, 2014	Filed herewith
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 March 31, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements	



Exhibit 10.34

BOWMAYNE PTY. LTD. A.C.N. 126 501 755
("the Lessor")

and

UNIVERSAL BIOSENSORS PTY. LTD. A.B.N. 35 098 234 309
("the Lessee")

DEEP OF EXTENSION AND VARIATION OF LEASE

Premises at 1 Corporate Avenue, Rowville, Vic 3178

**MICHAEL SNIDER
SOLICITOR
P.O. Box 325
ELSTERNWICK 3185**

**Telephone: 9523 8046
Facsimile: 9532 7737
Email: rodlar@optusnet.com.au**



DEED OF EXTENSION AND VARIATION OF LEASE

THIS DEED made the 24th day of MARCH 2014

BETWEEN

BOWMAYNE PTY. LTD. A.C.N. 126 501 755
152 Chapel Street, St. Kilda Vic 3182
("the Lessor") of the first part

AND:

UNIVERSAL BIOSENSORS PTY. LTD. A.B.N. 35 098 234 309
1 Corporate Avenue, Rowville, Vic 3178
("the Lessee") of the second part

WHEREAS:

- A.** By a Lease dated the 16th October, 2006 made between Heyram Properties Pty. Ltd. A.C.N. 067 342 385 ("the original Lessor") and the Lessee ("the Lease") a copy of which is attached hereto, for the consideration therein mentioned the original Lessor agreed to let and the Lessee agreed to lease the Premises at the Building, 1 Corporate Avenue, Rowville, Vic 3178 (excluding area leased for the telecommunications aerial) and more particularly described in the Lease ("the Premises") to be held by the Lessee as Lessee for the term of Seven (7) years and five (5) months, which term commenced on the 1st November, 2006 and terminates on 31st March, 2014 at the rent and subject to the covenants conditions and restrictions more particularly referred to in the Lease; and
- B.** The Lessor is the successor in title to the original Lessor.
- C.** The Lessee has exercised its option pursuant to Clause 6.6 of the Lease to lease the Premises for a further term of Five (5) years commencing on the 1st April, 2014 and terminating on the 31st March, 2019 ("the Further Term").
- D.** The Lessee has requested and the Lessor has agreed to grant to the Lessee additional Two (2) further terms of Five (5) years each.
- E.** The Lessor has agreed to let and the Lessee has agreed to lease the Premises for the Further Term at the rent and subject to the covenants and provisions hereinafter reserved and expressed; and
- F.** The Lessor and the Lessee have agreed one with the other to vary the Lease in the manner hereinafter provided; and



NOW THIS DEED WITNESSETH AS FOLLOWS:-

1. Further Term, Rent and Variation

In consideration of the rent hereinafter reserved and the covenants on the part of the Lessee hereinafter contained the Lessor **DOETH HEREBY LEASE** the Premises to the Lessee to be held by the Lessee upon and subject to the same covenants terms conditions and provisions contained in the Lease and with such modifications as set out herein and effected by this Deed.

- 1.1 The Lessor and the Lessee hereby acknowledge and agree that Clauses 9. 10. 14. and 15. of the Lease shall be deemed to be deleted.
- 1.2. The Lessor and the Lessee hereby acknowledge and agree that a new Clause 16 is added into the Lease as follows:-

16. Landlord’s Contribution

- (i) The Lessor hereby agrees with the Lessee to make a contribution to the Lessee’s cost of installing energy efficient led lighting in the Premises (“the works”).
- (ii) The Lessor’s contribution shall be a fixed amount of \$ 70,665.00 inclusive of GST (“the contribution”).
- (iii) The Lessor shall at its sole discretion make the contribution by either -
 - (a) payment direct to the Lessee’s contractors within fourteen (14) days after the Lessor has received an itemized Tax Invoice from the Lessee and the Lessor is reasonably satisfied that the works have been installed in the Premises; or
 - (b) by crediting the Lessee’s rental account by the amount of the contribution.
- (iv) The Lessor hereby agrees to notify the Lessee in writing on which basis it will make the contribution within seven (7) days of the Lessee notifying the Lessor in writing that the works have been completed.

(v) The Lessee’s works to which the contribution has been made by the Lessor shall at all times be and remain the property of the Lessor.

- 1.3 The Lessor and the Lessee hereby acknowledge and agree that items of the Schedule of the Lease as set out herein are hereby amended and varied as follows:-

- 4. Term: Five (5) years
- 5. Commencement Date: 1st April, 2014
- 6. Rental: \$ 530,000.00 plus GST per annum
- 10. Further Terms: Three (3) further terms of Five (5) years each
- 13. Last Day For Exercise Option: 1st January, 2019



- 1.4 The Lessor and the Lessee hereby acknowledge and agree that Clause 2.8 of Appendix A shall be amended as follows:-
 - 2.8 The Valuer must determine a current market rent no more than 20% higher and not less than 10% lower than the rental immediately before the review.
- 1.5 The Lessee covenants and agrees on the signing of this Deed to provide a replacement Bank Guarantee for \$ 250,000.00 in the form of the existing Bank Guarantee held by the Lessor but with an expiry date of 1st July, 2019. The Lessor hereby covenants and agrees to simultaneously return to the Lessee the existing Bank Guarantee on receipt of the replacement Bank Guarantee.

2. Covenants applicable to the Further Term

The Lessee shall hold the Lease for the First Further Term subject to the like exceptions and reservations as are contained in the Lease and subject to the like covenants and agreements on the part of the Lessee and the like provisions for re-entry in the case of non-payment of rent or breach of covenant, or the happening of any of the other events in the Lease in that behalf mentioned and with the benefit of the like covenants and agreements on the part of the Lessor and subject to and with the like provisions and conditions in all respects as are contained in the Lease in like manner as if all such covenants agreements conditions and provisions had been repeated herein with such modifications only as the provisions of this Deed and the term of the Lease and any other circumstances may require.

3. Performance of the Lease

Subject only to the variations herein contained and such other alterations (if any) as may be necessary to make the Lease consistent with this Deed the Lease shall remain in full force and effect and shall be read and construed and be enforceable as if the terms of this Deed were inserted therein by way of addition or substitution as the case may be.

The Lessor and Lessee covenant one with the other that they will perform and observe during the Further Term all such covenants agreements conditions and provisions contained in the Lease and confirmed by this Deed and which are on their respective parts required to be performed and observed.

4. Retail Leases Act 2003

The Lessor and the Lessee acknowledge and confirm that the Retail Leases Act 2003 does not apply to the Lease or this Deed.


5. Costs

Each party shall pay their own legal costs of and incidental to the preparation and execution of this Deed.



IN WITNESS WHEREOF the parties hereto have executed these presents the day and year first hereinbefore written.

EXECUTED by **BOWMAYNE PTY. LTD. ACN 126 501 755**
 by being signed by the person who is authorized to sign for the Company
 in accordance with Section 127 of the Corporations


 _____ Sole Director and Sole Company Secretary
 Louise Olenski

EXECUTED by **UNIVERSAL BIOSENSORS PTY. LTD. A.B.N. 35 098 234 309**
 by being signed by the persons who are authorized to sign for the Company
 in accordance with Section 127 of the Corporations


 _____ Director

PAUL WRIGHT _____ Print Name


 _____ Company Secretary

Cameron Billingsley _____ Print Name



HEYRAM PROPERTIES PTY. LTD.
A C N 067 342 385
(Lessor)

and

UNIVERSAL BIOSENSORS PTY LTD
ABN 35 098 234 309
(Lessee)

and

(Guarantor)

L E A S E

Premises: 1 Corporate Avenue Rowville, Victoria 3178

KAHNS LAWYERS
Level 9
341 Queen Street
MELBOURNE VIC 3000
Ref: JC:PF/06/7340



Where two or more Lessees are parties hereto the covenants obligations and agreements on their part herein contained refer to and shall bind them and any two or greater number of them jointly and each of them severally.

A reference to a statute includes all regulations under and amendments to that statute whether by subsequent statute or otherwise and statute passed in substitution for the statute referred to or incorporating any of its provisions.

Any headings or marginal notes have been inserted for guidance only and do not form part of this Lease.



2. **DEMISE**

In consideration of the rents covenants and conditions hereinafter reserved and contained and on the part of the Lessee to be observed and performed the Lessor subject to the covenants conditions powers reservations and provisos herein contained **HEREBY LEASES** to the Lessee the Premises **TOGETHER WITH** the chattels described in the Schedule **TO HOLD** for the Term and at the rental set out in the Schedule.

3. **LESSEE'S POSITIVE COVENANTS**

3.1 **Rental**

During the continuance of the Term the Lessee shall duly and punctually to pay to the Lessor the rental (together with GST) by the payments at the times and in the manner provided in the Schedule.

3.2 **Review of Rental**

The rental shall be reviewed at the times and in the manner provided in the Schedule.

3.3 **Deductions**

The Lessee shall not at any time deduct or set-off any monies payable or claimed by the Lessee to be payable by the Lessor from or against any rental or other monies payable by the Lessee to the Lessor pursuant to any of the provisions hereof.

3.4 **Rates and Outgoings**

3.4.1 The Lessee shall pay or at the election of the Lessor reimburse the Lessor for all the following proper and reasonable costs, expenses, rates, taxes, charges, assessment, impositions and the like with respect to this Lease and the Premises during the Term hereof (but excluding those items listed in clause 3.4.3):

- (a) all municipal and other rates taxes assessments and charges levies and impositions including water consumption, excess water charges and state land tax (assessed on the basis that the Land is the only land owned by the Lessor);
- (b) all telephone electricity gas and other like outgoing;
- (c) all reasonable costs, expenses and other outgoing incurred by the Lessor to repair and maintain the Premises and the Lessor's Fixtures [where required by the Act];
- (d) any other rates taxes charges assessments or other impositions which shall during the term of this Lease or any extension thereof be imposed or charged in connection with the provision of any off street parking or other like service or the cost of construction thereof;
- (e) the insurance premiums referred to in Clauses 3.11 and 4.16 hereof;
- (f) all charges connected with the operation of the Lessee's business on the Premises including all licence and inspection fees in respect thereof; and
- (g) any body corporate or like fees, charges levies or expenses payable by the Lessor in respect of the Premises.

(to be referred to as "Outgoings") save that where the Act applies, the Lessor may only require payment or reimbursement by the Lessee of such rates, taxes, expenses and other outgoing as are not prohibited from recovery from the Lessee under the Act.

3.4.2 To the extent that any of the said costs, expenses, rates, taxes, charges, levies, assessments, impositions and the like shall not be separately assessed in respect of the Premises then the Lessee shall pay that proportion of the whole which the area of the Premises bears to the total area comprised in the relevant charge or assessment. Despite the foregoing the parties agree that the area occupied by the telecommunications tower pursuant to the telecommunications tower lease shall be disregarded and shall not be taken into account to reduce the Lessee's liability to pay outgoing. To the extent that any such periodic costs, expenses, rates, taxes, charges, levies, impositions and the like are for a period not coinciding with the Term of this Lease then any appropriate adjustments shall be made at the commencement and at the end of the Term.

3.4.3 The following Outgoings shall be excluded:

- (a) capital expenditure by the Lessor on plant, machinery, equipment or structural repairs to the building (not caused by the Lessee's fit out);
- (b) any liability or expenditure payable by or recoverable from some other lessee or lessees of the building or from any other person (such as income from a third party advertiser or telecommunications aerial);



- (c) any liability or expenditure recoverable by the Lessor through a claim on the Lessor’s insurance policies for the building, including when an insurance claim is in progress;
- (d) costs, expenses and interest in connection with money borrowed by the Lessor and;
- (e) any other capital expenditure or deduction which should not be considered an outgoing or operating expense of the Building under normal accounting policies or practice; and
- (f) income tax payable by the Lessor.

3.4.4 The Lessor must provide an Outgoings reconciliation within 3 months of the end of the Outgoings Year. The Lessee shall have the right to audit the outgoings.

3.4.5 The Lessee will be required to pay the Lessor’s cost of undertaking an annual Occupational Health and Safety (OH&S) audit. The cost of the OH&S audit will be borne by the Lessee and recovered through the Outgoings. The Lessor agrees that before conducting an OH&S Audit, it will review the Lessee’s building specifications and operating procedures that are required to be maintained by certain government and regulatory authorities in the conduct of the Lessee’s business. Should the information provided by the Lessee suffice, the OH&S Audit may be waived at the Lessor’s discretion, acting reasonably.

3.4.6 For the avoidance of doubt, the Lessee is obligated to pay Outgoings for the general upkeep of the building, including but not limited to gardening, cleaning, insurances and general operational charges. The Lessee is not obliged to pay capital based building costs such as external painting, machinery replacement, or costs relating to potential design faults of the building such as cracked pavements.

3.5 **Repairs and Cleaning**

3.5.1 At all times during the Term the Lessee will and sufficiently at his own cost repair clean maintain and keep in such good order and condition as at present the Premises and all fixtures fittings (including maintenance of the air-conditioning producing evidence of a current maintenance contract on demand by the Lessor) and things belonging thereto or which at any time during the Term shall be erected or put therein by the Lessor or by the Lessee with the Lessor’s consent reasonable wear and tear and damage by fire storm or tempest excepted and to keep and at the expiration or sooner determination thereof peaceably and quietly to yield and give up unto the Lessor the Premises with the appurtenances and all fixtures fittings and things therein including the Lessor’s Fixtures in a good state of repair order and condition as at present reasonable wear and tear and damage by fire storm or tempest excepted (the Lessee having the right during the continuance of the Term to remove any fixtures and fittings supplied by the Lessee during the Term provided the Lessee shall make good to the satisfaction of the Lessor any damage caused by such removal) **PROVIDED ALWAYS** that any damage caused by fire storm or tempest as aforesaid shall not be excepted where any insurance moneys on the Premises or the Building or any property therein are non recoverable by the Lessor in consequence of some act or default of the Lessee or the servants licensees agents or invitees of the Lessee. In this clause the word “**repair**” shall include the cleaning and keeping free of all drains and waste pipes which are exclusively serving the Demised Premises.

3.5.2 The Lessee shall:

- (a) immediately repair and replace all broken glass and all damaged or broken heating lighting electrical equipment and plumbing installed in the Premises and all doors fastenings windows locks and keys and all the Lessor’s Fixtures and in the case of breakage of exterior plate glass or other windows to replace the same with glass or similar quality; and
- (b) regularly clean the Premises (including all windows and doors) and to keep the same free from dirt and rubbish and to store all refuse in proper receptacles and arrange for the regular removal thereof from the Premises.

3.5.3 Nothing in this Clause 3.5 obliges the Lessee to carry out structural repairs or alterations to the Premises or to be responsible for the cost thereof unless caused or contributed by (and then only to the extent caused or contributed by):

- (a) Lessee alterations to the Premises required to be amended back to the requirements of the Lessor;
- (b) some negligent act, omission or default by the Lessee or its employees, servants or agents;
- (c) failure by the Lessee to perform its obligations under this Lease; or
- (d) the Lessee’s particular use of the Premises.

3.5.4 The Lessee will be responsible for the organization of the contracts, and the charges associated with the ongoing operational maintenance of the Premises during the Term of the Lease. The Lessor may provide guidance relating to the preferred contractors to be used by the Lessee, with reasonable endeavours made to use them where possible.



3.6 Fittings

Subject to clauses 4.8.4 and 4.8.5 hereof if the Lessee shall not have removed as of right any fixtures, fittings and things supplied by him during the Term of the Lease the Lessor may at his option himself cause any such fixtures fittings or things to be removed and any damage resulting to be made good and any alteration to be re-altered and may recover the costs thereof from the Lessee as a liquidated debt payable on demand. Any fittings fixtures or things not removed by the Lessee as of right or by requirement of the Lessor shall at the expiration of the Term be deemed abandoned by the Lessee and shall thereafter be and become the property of the Lessor.

3.7 Chattels

The Lessee shall keep the chattels clean and in good repair order and condition as at present reasonable wear and tear and damage by fire storm or tempest excepted (subject to the recovery of insurance moneys as aforesaid) and to make good all damage thereto and to replace with similar articles of at least equal value to the reasonable satisfaction of the Lessor all such chattels as may at any time be destroyed or lost or so damaged as to be incapable of complete re-instatement to their former condition and not without the previous written consent of the Lessor to remove or permit to be removed from the Demised Premises (except only for the purpose of necessary repairs) any of the chattels.

3.8 Garden

The Lessee shall cut maintain cultivate manage and manure any lawn and/or garden included in the Demised Premises in a good and proper manner and to replace any lawn trees or shrubs which may perish or be damaged removed or destroyed other than as a result of fire storm or tempest.

3.9 Lessor's Entry and Defects

3.9.1 Subject to clause 3.9.2, the Lessee shall permit the Lessor his employees agents architects surveyors builders and workmen (subject to the right of supervision under clause 3.9.2) with all necessary materials equipment and appliances from time to time to enter upon the Premises at all reasonable times and upon reasonable notice (being at least two business days' written notice) but at any time and without any notice in the case of an emergency:

- (a) to carry out any works or make any repairs or alterations or additions to the Premises and to enter upon all or any part of the Premises and to use the same for the purposes of effecting or carrying out any repairs alterations or additions or other works which the Lessor may consider necessary desirable or should have been completed by the Lessee under the Lease to any part of the Premises and/or of the Building;
- (b) when and as often as the Lessor shall require to view the state of repair and condition thereof and to make such reasonable investigations as the Lessor may deem necessary for the purpose of ascertaining whether or not there has been any breach of any of the covenants and conditions herein contained and to serve upon the Lessee a notice in writing of any want of repair or maintenance requiring the Lessee to repair the same in accordance with any covenant herein contained;
- (c) for the purpose of complying with the terms of any present or future legislation affecting the Premises or of any notice served upon the Lessor or the Lessee by any governmental semi-governmental municipal health licensing civic or other competent authority for the purpose of carrying out any repairs alterations or works (including the providing of lighting power and telephone services to the Lessee and any other purposes the effecting of which necessitates access to the ceilings walls or floors in the Premises) and also for the purpose of exercising the powers and authorities of the Lessor hereunder; and
- (d) In the event of the Premises and/or the Building being destroyed or damaged for the purpose of rebuilding the same or making the Premises and/or the Building fit for the occupation and use thereof by the Lessee and by the other occupiers thereof.

3.9.2 The Lessor acknowledges that the Lessee will use the Premises for the manufacture of sensors and will be required to impose high standards of safety, hygiene and cleanliness particularly in respect to laboratories and clean rooms. For this reason, the Lessee may grant access on the condition of close individual supervision the Lessor's architects, workmen and contractors at all times while working in the Premises to ensure compliance with the strict regime of safety and cleanliness.

3.9.3 Where the Lessee has failed to repair and maintain the Premises in accordance with the provisions of this Lease within twenty-one (21) days of the date of service of any notice from the Lessor requiring the Lessee so to do in accordance with that notice, the Lessor may execute all or any of the required repairs as the Lessor shall think fit and without prejudice to the Lessor's other remedies the Lessee shall pay to the Lessor the cost of such repairs as the Lessee ought to have effected.



3.9.4 In exercising its rights under Clause 3.8 the Lessor shall act reasonably in all the circumstances.

3.10 Creation of Easement

For the purpose of the provision of public or private access to and egress from the Premises or the support of structures erected or hereafter erected on any adjoining lands or of services (including water drainage gas and electricity supply and telephonic and electronic communication services) the Lessee hereby permits the Lessor to transfer grant or create any easement licence privilege or other right or dedicate land in favour of any of the owners lessees tenants or occupiers or other persons interested in any land adjacent or near to the Premises or any public authority as the Lessor thinks fit and this Lease shall be deemed to be subject to any such easement licence privilege or other right or dedication **PROVIDED HOWEVER** that the Lessor in the exercise of the rights herein conferred shall not dedicate land or transfer grant or create any easement licence privilege or other right to any other person which would substantially and permanently derogate from the enjoyment of rights conferred on the Lessee by this Lease.

3.11 Insurance

3.11.1 The Lessee shall effect and keep current during the Term hereby created policies of insurance in the name of the Lessee and the Lessor in respect of the Premises for plate glass, fire, storm, tempest malicious damage, water damage, public risk (\$20 million) and such other risks and for such amounts as the Lessor shall reasonably require and upon request to produce to the Lessor evidence of such policies and of the currency thereof. Responsibility for arranging Public Liability Insurance lies with the Lessee. The Lessee shall not require the Lessor's consent for a change of insurer provided the insurer is of sufficient standing to meet any claim and is represented in Australia. The Lessor's interest shall be noted on the policy and copies of the insurance certificate will be provided on demand. At no time shall the policy of documents be provided.

3.12 Orders

3.12.1 The Lessee shall comply with and observe all notices orders and directions given to either the Lessee or the Lessor by any statutory or public authority relating to the Premises and shall carry out the requirements thereof at his own expense.

3.12.2 This Clause shall not impose any liability on the Lessee in respect of structural repairs or alterations to the Premises except where any such notice order or direction that requires the carrying out of structural repairs or alterations to the Premises and has been occasioned by the nature of the Lessee's business or by his use of the Premises whether permitted under this Lease or not or by the act neglect or default of the Lessee.

3.13 Use of Building and Premises

The Lessee shall:

- (a) unless prevented by fire storm civil commotion Act of god tempest or earthquake or other inevitable happening continuously to use the Premises; and
- (c) use the Lessee's best endeavours to protect and keep safe the Premises and any property contained therein from theft or robbery and when not in use to keep all doors and windows and other openings closed and securely fastened.

3.14 Regulations

In the event of the Premises forming part of a building to comply with observe and perform all reasonable rules and regulations not inconsistent with these presents which are at the date hereof or may from time to time hereafter be prescribed by the Lessor generally for Lessees of the Building.

3.15 Indemnification of Lessor

3.15.1 The Lessee agrees to occupy use and keep the Premises at the risk of the Lessee and hereby releases to the full extent permitted by law the Lessor from all claims and demands of every kind and from all liabilities whatsoever (except to the extent that the same is caused or contributed to by any act, omission or the negligence of the Lessor, his employees agents architects contractors surveyors builders and workmen) which may arise in respect of any accident loss or damage to property or death of or injury to any person of whatsoever nature or kind in or near the Demised Premises and whether or not as a result of the creation of some dangerous thing or state of affairs by the Lessee or by any clerk servant workman



employee or agent of the Lessee and whether the existence of such dangerous thing or dangerous state of affairs was or ought to have been known to the Lessor or not and the Lessee agrees that (save as aforesaid) the Lessor shall have no responsibility or liability for any loss of or damage to fixtures or personal property of the Lessee occurring therein or relating thereto.

3.15.2 The Lessee hereby indemnifies the Lessor from and against all actions claims demands losses damages proceedings compensation costs charges and expenses for which the Lessor shall or may be or become liable (except to the extent that the same is caused or contributed to by any act, omission or the negligence of the Lessor, his employees agents architects contractors surveyors builders and workmen) whether during or after the term hereof in respect of or arising from (notwithstanding that any of such actions claims demands losses damages proceedings compensation costs charges and expenses shall have resulted from any act or thing which the Lessee may be authorised or obliged to do under these presents and notwithstanding that at any time waiver or other indulgence has been given to the Lessee in respect of any obligation of the Lessee under this clause):

- (a) loss damage or injury from any cause whatsoever to property or person within or outside the Premises occasioned or contributed to by the neglect or default of the Lessee or any servant agent subtenant or other person claiming through or under the Lessee to observe or perform any of the covenants conditions regulations and restrictions on the part of the Lessee hereunder whether positive or negative express or implied;
- (b) injury or loss which may be sustained by any person when using or entering or near any portion of the Premises whether in the occupation of the Lessor or of the Lessee or of any other person where such injury arises or has arisen as a result of the negligence of or as a result of the creation of some dangerous things or state of affairs by the Lessee or by any servant workman employee or agent of the Lessee and whether the existence of such dangerous thing or dangerous state of affairs was or ought to have been known to the Lessor or not;
- (c) the negligent or careless use misuse waste or abuse by the Lessee or any contractor sub-contractor licensee invitee client customer or visitor of the Lessee or any other person claiming through or under the Lessee of the water gas electricity lighting or mechanical or other services and facilities of the Premises or arising from any faulty fitting or fixture of the Lessee;
- (d) overflow leakage or escape of water (including rain water) gas electricity or any other harmful agent whatsoever in or from the Premises or from any sprinkler system or device or by waste entry from the roofs walls gutters downpipes or other part or parts of the Building in which the Premises are situate or arising from any defect in the gas electricity water sewerage or drainage supply connections or fittings or appliances or air conditioning and mechanical ventilation or other plant or equipment used in connection therewith and originating in from or about the Premises or whether originating within the Premises or not but caused or contributed to by any act or omission on the part of the Lessee or any agent servant contractor or employee of the Lessee or other persons claiming through or under the Lessee PROVIDED HOWEVER that this clause shall not operate if the overflow leakage or escape of water (including rain water) gas electricity or any other harmful agent arises directly or indirectly from the act, omission or negligence of the Lessor, his employees agents architects contractors surveyors builders and workmen;
- (e) failure of the Lessee to notify the Lessor of any defect in any of the mechanical installations or other services or appurtenances in the Premises;
- (f) loss damage injury or accidental death from any cause whatsoever to property or person caused or contributed to by the use of the Premises by the Lessee or other persons as aforesaid;
- (g) loss damage injury or accidental death from any cause whatsoever to the Premises or to any property or person within or outside the Premises occasioned or contributed to by any act omission neglect breach or default of the Lessee or other persons as aforesaid; and
- (h) all claims losses and damage to plate and other glass caused or contributed to by any act or omission on the part of the Lessee or other persons as aforesaid.

3.15.3 The obligations of the Lessee under this Clause 3.15 shall continue after the expiration or other determination of this Lease in respect of any act deed matter or thing happening before such expiration or determination.

3.16 **Future Tenants and Purchasers**

The Lessee permits the Lessor or his agents at all times during:

- (a) the three (3) calendar months immediately preceding the determination of the Term hereby granted or any extension thereof to affix upon any reasonable part of the Premises a notice for re-letting the same and during the same three (3) months to permit intending tenants with written authority from the Lessor or his agents at reasonable times of the day upon appointment to view the Premises and



- (b) the Term hereby created or any extension thereof to affix upon any reasonable part of the Premises a notice for the sale of the same (or of the Building) and to permit, subject to compliance with clause 3.9.2, intending purchasers and others with written authority from the Lessor or his agents with 24 hours prior consent and at reasonable times of the day upon appointment to view the Premises. Any visitors to the Premises may be required at the Lessee's discretion to have supervised access as detailed in clause 3.9.2.

3.17 Costs and Duty

The Lessee shall pay to the Lessor the reasonable costs charges and expenses reasonably incurred of and incidental to and of any stamp duty payable on this lease, variation or assignment or subletting and/or any surrender or other termination and also all moneys costs (including charges for legal advice or assistance and charges for advice and assistance from other Consultants) charges and expenses which the Lessor may pay incur or expend in consequence of any default in the performance and observance of any covenant or agreement herein contained and on the part of the Lessee to be performed and observed or under or in the exercise or enforcement or attempted exercise or enforcement of any power or authority herein contained or in consequence of any request by the Lessee under any covenant clause or condition herein contained immediately the Lessor shall have expended or incurred the same. Where the Act applies, this clause shall only operate to the extent permitted by the Act as amended or replaced from time to time. Each party shall bear their own costs of the preparation negotiation and execution of these presents.

3.18 Interest

The Lessee shall pay to the Lessor interest on any moneys due and unpaid pursuant to this Lease at the rate per annum equal to four percent (4%) higher than the rate for the time being fixed under **Section 2** of the Penalty Interest Rates Act 1983 computed from the date on which such payment became due.

3.19 Keys

- 3.19.1 The Lessor will ensure that the base building proxy card system is operational and has the ability to be upgraded/reprogrammed by the lessee as part of their fit out. The Lessee shall be provided without cost a minimum of 15 access cards, and keys where available to the balance of the facility.
- 3.19.2 Upon the expiration or sooner determination of the Term of this Lease the Lessee shall surrender to the Lessor all security passes keys card-keys and other devices for the purpose of obtaining access to the Demised Premises held by the Lessee or any of the Lessee's employees servants agents visitors and invitees irrespective of whether or not the same have been supplied by the Lessor.

3.20 Notice of Damage

The Lessee shall give to the Lessor or his agents prompt written notice of any damage to or defect or want of repair in the Premises (or the Building) including the water pipes gas pipes electric light wirings or any of the services of the Building including but not limited to fire protection, air-conditioning and lifts or other the fittings or fixtures contained in the Premises and of any circumstances likely to be or cause any danger risk or hazard to the Premises or the Building or any person therein.

4. LESSEE'S NEGATIVE COVENANTS

4.1 Permitted Use

The Lessee shall not use or allow to be used the Premises for any purpose whatsoever other than the Permitted Use without the written consent of the Lessor and not to allow the Premises to be unoccupied for a period in excess of fourteen (14) days.

4.2 Licence Authorities and Permits The Lessee shall:

- (a) obtain and keep current all licences and permits required for the carrying on of all businesses conducted by the Lessee in or upon the Premises;



- (b) without in any way limiting the generality of anything elsewhere contained in this Lease, not without the Lessor's prior written consent apply for or obtain or to permit or suffer the making of any application for or the grant or obtaining of any additional licence, permit or authority; and
- (c) not without the Lessor's prior written consent make any variation or addition to any term, condition, obligation or undertaking in respect of any licence, permit or authority which may exist from time to time in respect of the Premises nor to make any application for or consent to or to cause or bring about any such variation or addition.

4.3 Conveniences

The Lessee shall not to use or permit or suffer to be used the toilets, sinks, drainage or other plumbing facilities in the Premises or (where applicable) in the Building for any purpose other than those for which they were constructed or provided, and not to deposit or permit to be deposited therein any sweepings, rubbish, or other matter and any damage thereto by misuse shall be made good by the Lessee forthwith.

4.4 Vermin

The Lessee shall take all reasonable precautions to keep the Premises free of rodents, vermin, insects, birds and animals and in the event of his failure so to do the Lessee will if and so often as required by the Lessor but at the cost of the Lessee employ pest exterminators approved by the Lessor.

4.5 Infectious Diseases

In the event of any infectious illness occurring in the Premises the Lessee shall forthwith give notice thereof to the Lessor and to the proper public authorities and at the expense of the Lessee to thoroughly fumigate and disinfect the Premises to the satisfaction of the Lessor and such public authorities and otherwise to comply with their reasonable and lawful requirements in regard to the same.

4.6 Heating etc.

The Lessee shall not to use or permit to be used any heating or cooling devices or any other device or machine which may interfere with the efficient running of any air conditioning system in the Premises and not to use any form of lighting other than that generated by electric current.

4.7 Assignment

The Lessee shall not without the consent in writing of the Lessor first had and obtained transfer assign mortgage pledge underlet or part with possession of this Lease or any estate or interest therein or transfer assign mortgage pledge underlet or part with possession of the Premises or any part thereof or estate therein and the provisions of **Section 144** of the Property Law Act 1958 are hereby expressly excluded **PROVIDED HOWEVER** that the Lessor shall not unreasonably arbitrarily or capriciously withhold his consent to the assignment of this Lease or to the sub-letting of the Demised Premises but before giving such consent the Lessor shall be entitled to the performance by the Lessee of the following conditions which so far as they are capable of prior performance shall be conditions precedent to the Lessee obtaining such consent, namely:

- (a) the Lessee is not in default of the covenants and agreements of the Lessee's part herein contained and shall have duly and punctually performed up to the date of such assignment or sub-lease all covenants and agreements on the part of the Lessee herein contained;
- (b) the Lessee has submitted to the Lessor or his duly authorised agent or solicitor the name address and occupation of any proposed assignee or sub-lessee together with reasonable proof that such person is respectable responsible and solvent and without limiting the generality of the foregoing the Lessee shall provide to the Lessor at least two references as to the proposed assignee's or sub-lessee's financial circumstances and experience;
- (c) the Lessee shall at his expense procure the execution by such person of an assignment of this Lease or sub-lease in such form as the Lessor or his solicitor reasonably approves and in which categorically or by reference the assignee or sub-lessee as the case may be shall enter into covenants conditions agreements and stipulations with and grant powers to the Lessor in terms of the several covenants conditions agreements stipulations and powers herein expressed or such of them as may be required by the Lessor or his solicitor including but not limited to a covenant to the effect that the Lessee releases the Lessor from all claims against the Lessor in respect of or in any way arising from the Lease and that any such assignment or sub-lease does not affect the Lessor's rights against the Lessee or against any person who has previously guaranteed the obligations of the Lessee under this Lease arising out of any past or future failure to pay the rental reserved by this Lease or to perform or observe the Lessee's covenants and conditions contained in this Lease;
- (d) such assignment or sub-lease shall be perused by the solicitor for the Lessor at the cost and expense in all respects of the Lessee and an executed copy of such assignment or sub-lease duly stamped at the expense of the Lessee shall be delivered to the Lessor as soon as possible after execution by the Lessor;



- (e) the Lessee shall pay to the Lessor all reasonable costs charges and expenses reasonably incurred by the Lessor of and incidental to any enquiries made by the Lessor or his agent or solicitor as to the respectability responsibility and solvency of the proposed assignee or sub-lessee and of and incidental to the instructions for and perusing and approving copying and examining and obtaining execution of the said consent;
- (f) any guarantors of the present Lessee shall acknowledge their continuing obligations in respect of the assignee or sub-lessee subject always to the provisions of the Act where applicable;
- (g) if Clause 6.9.5(b) applies, the new bank guarantee has been provided;
- (h) for the purposes of this clause if the Lessee is an incorporated company a change in the effective control of the company by the person or persons who enjoy such control as at the date of this Lease (save where such change of control is solely referable to transfers of shares by inheritance) shall be deemed to be an assignment of this Lease and as such shall require the consent of the Lessor in the manner provided in this clause **PROVIDED ALWAYS** that this sub-clause shall not apply where the Lessee is a company the voting shares of which are listed on a recognised Stock Exchange in Australia or where the Lessee is and remains a wholly owned subsidiary of a company the voting shares of which are so listed; and
- (i) the Lessee shall be permitted to assign in whole or sub lease in whole or part subject to the consent of the Lessor;
- (j) any assignment or sub leasing will not trigger a market rent review;
- (k) no consent shall be required for sub leasing to related organizations or joint venture partners of the Lessee.

4.8 Alterations and Additions/Lessee's Works

- 4.8.1 The Lessee shall not make or permit to be made any alterations or additions to the Premises ("Alterations") or to any fixtures or fittings therein without first obtaining the consent in writing of the Lessor or his agents which shall not be unreasonably withheld.
- 4.8.2 The Lessor shall provide consent or request amendment to such proposed Alterations within 10 business days of such proposed Alterations being provided to the Lessor by the Lessee in accordance with Clause 4.8.3.
- 4.8.3 When applying to the Lessor for consent to make some alteration or addition to the Premises the Lessee shall submit to the Lessor or his agents for perusal full and clear plans specifications (including any necessary building permits) and other details and pay such reasonable expenses as the Lessor or his agents may incur in obtaining reports and advice on such plans specifications and details from architects engineers builders and other consultants and in having any works inspected.
- 4.8.4 All works shall be carried out in a proper and workmanlike manner to the satisfaction of the Lessor (acting reasonably) by qualified builders tradesmen or others approved by the Lessor and as soon as practicable after completion of the works the Lessee shall provide to the Lessor a certificate of completion by the Lessee's builder or tradesman.
- 4.8.5 For avoidance of doubt, the Lessee, subject to final design intends to:
 - (a) modify, increase or potentially dissemble in part or full all of the mezzanine structure (outside the 1,400 sqm of office), to make the building space more generic;
 - (b) dismantle office partitioning and return the premises to open plan;
 - (c) remove or modify ceilings underneath and around the mezzanine levels;
 - (d) build laboratory (clean) rooms suitable for the production of sensor technology

Any of the Lessee's works, carried out to the office and warehouse areas will not be subject to a redecoration clause during or at the end of the lease.

The Lessee will not be required to reinstate the mezzanine structure to its previous state upon final vacation.

For the avoidance of doubt, the Lessee will only be responsible for removing fixtures and fittings installed during the term of the Lease.

The Lessee shall be responsible for any upgrades required to the base building BCA requirements, given the level of the envisaged fit out.



4.8.6 Subject to fair wear and tear, the Lessee shall on final vacation, remove the Lessee's fixtures and fittings, and make good any damage caused by their removal, only if requested by the Lessor within 14 days of serving notice to vacate.

The Lessee shall not be required to:

- (a) replace any floor coverings, including carpet;
- (b) repaint any part internal or external of the premises;
- (c) reinstate (or reconstruct) any alterations made to the mezzanine.

Under no circumstances will the Lessee be required to make good the office building (being the 1,400 sqm structure, separate to the warehouse building), unless the lessee constructs specialized laboratory facilities within the 1,400 sqm office building

The Lessor will have the right to request the make good of any fit out within the balance of the Premises (outside of the office area).

Ownership of partitions, workstations, carpet and additional offices built or installed by the Lessee (as approved by the Lessor in the fit out phase) will revert to the ownership of the Lessor upon final vacation.

4.9 Services

The Lessee shall not carry out any work which interferes with the electrical installations or wiring of the Premises or any drains water supply gas plumbing or other services contained in or about the Premises nor to do anything which may endanger any part of the Premises or the operation of any apparatus thereon nor install any electrical equipment on the Premises which may overload the cables switchboards or sub-boards through which electricity is conveyed to the Premises.

4.10 Statutory Notices

Without prejudice to the Lessee's obligations under **Clauses 4.1** and **4.2**, the Lessee shall not use or permit to be used the Premises or any part thereof or do or suffer to be done thereon anything whereby or by reason whereof any public or statutory authority may give or issue or be entitled to give or issue any notice including but without limiting the generality of the foregoing any notice requiring structural alterations or repairs to be made or carried out to any part of the Premises.

4.11 Nuisance etc.

The Lessee shall not to use the Premises or permit the Premises to be used in any noisy noxious or offensive manner or do or permit on the Premises anything which in the opinion of the Lessor may be or become a nuisance disturbance hazardous or offensive or cause damage to the Lessor or any other persons.

4.12 Heavy Articles

The Lessee shall not put any heavy articles machinery plant or equipment in the Premises save of such weight and in such place as the Lessor has by its prior written consent approved. The Lessor will not unreasonably withhold consent where the articles machinery plant or equipment are reasonably necessary for the Lessee's use of the Premises and are of a nature and size as will not or in the reasonable opinion of the Lessor will not be likely to cause any structural or other damage to the floors or wall or any other parts of the Premises. The Lessor shall be entitled to obtain expert advice in relation to any proposal by the Lessee to bring articles machinery plant or equipment into the Premises and the risk of structural or other damage to the floors or walls or other parts of the Premises and the Lessee shall pay or reimburse the Lessor for any cost incurred by the Lessor in obtaining the advice.

4.13 Not to Deface

The Lessee shall not cut make holes in mark deface drill damage nor suffer to be cut holed marked defaced drilled or damaged any of the walls ceilings or other parts of the Demised Premises except so far as may be reasonably necessary for the carrying out of alterations approved by the Lessor or for the erection or installation of the Lessee's fixtures and fittings and on the removal of the Lessee's fixtures and fittings the Lessee shall reinstate repair and make good any damage caused in or about the erection or removal thereof.



4.14 Blocking Windows etc.

The Lessee shall not stop up darken or obstruct any windows or lights forming part of the Premises or permit any new window light opening doorway path passage or drain to be made in against out of or upon the Premises without the consent of the Lessor first had and obtained. In case any such window light opening doorway path passage or drain shall be made or attempted to be made the Lessee shall give immediate notice thereof to the Lessor and shall at the request of the Lessor and at the cost of the Lessee take such steps as may reasonably be required or deemed proper for rectifying the same.

4.15 Signs

The Lessee shall not display or affix any signs notices or advertisements to the exterior of the Premises without the prior written consent of the Lessor which shall not be unreasonably withheld in the case of signs notices or advertisements usual in the normal conduct of the use permitted by this Lease and not to display or affix any signs notices or advertisements which in the reasonable opinion of the Lessor may be offensive or undesirable and at the expiration of the Term if required by the Lessor to remove any signs notices or advertisements and make good the Premises.

The Lessee shall be granted exclusive naming and signage rights to the Building for \$1pa, if demanded.

Signage is not to effect the use or performance of the telecommunication aerial on the premises roof.

The benefit of any signage or naming rights shall be disregarded at any rent review.

4.16 Insurance

The Lessee shall not:

- (a) do or permit or suffer to be done any act matter or thing whereby any insurances in respect of the Premises may be vitiated or rendered void or voidable or whereby the rate of premium of any such insurance shall be liable to be increased or whereby any insurer is or might be entitled or enabled to decline or refuse any claim or to decline or refuse to renew any such insurance or to impose onerous conditions thereon; and
- (b) store any corrosive explosive volatile inflammable dangerous poisonous or toxic substances whether solid liquid or gaseous upon or about the Premises without the prior written consent of the Lessor which shall not be unreasonably withheld in the case of such reasonable quantities of such substances as may be required for the Lessee's permitted business and save as aforesaid not to use any of such substances in or about the Premises for any purpose and forthwith to pay to the Lessor all extra premiums of insurance on the Premises and contents if any be required on account of extra risk caused by the use to which the Premises are put by the Lessee or by the bringing or keeping on the Demised Premises of any of the said substances or fluids.

4.17 Auction Sales

The Lessee shall not hold or allow to be held any sale by auction on the Demised without the prior written consent of the Lessor which shall not be unreasonably withheld.

4.18 Obstructions

The Lessee shall not obstruct the entrances stairways or passage ways of the Premises or of any part of the Building and which the Lessee is entitled to use pursuant to the covenants contained in this Lease and not to use the same for any purpose other than for ingress to and egress from and through the Premises.

5. LESSOR'S COVENANTS

5.1 Quiet Enjoyment

The Lessee paying the said rental and performing and observing all the covenants and conditions herein contained and on the part of the Lessee to be observed and performed shall be entitled to and may peaceably and quietly hold and enjoy the Premises during the Term hereby granted without any interruptions or disturbance from or by the Lessor or any person or persons claiming under or in trust for him.

5.2 Rates

The Lessor shall pay all rates taxes and charges which may be assessed in respect of the Premises or the Building save and except such rates taxes and charges which pursuant to the covenants herein contained are to be paid by the Lessee.



5.3 No Warranty

The Lessor does not expressly or impliedly warrant that the Premises are now or will remain suitable or adequate for all or any of the purposes or uses of the Lessee and all warranties (if any) as to suitability and adequacy of the Premises implied by law are hereby expressly negated to the extent not prohibited by law.

5.4 Building Mechanics

The Lessor warrants that it will undertake capital expenditure when necessary on all base building systems including air conditioning and fire services, unless damage to these base systems has been caused by the Lessee's specific use.

For the avoidance of doubt, base building systems excludes any items of Lessee fit out, such as supplementary air conditioning systems.

The Lessor will repay the capital costs required to keep these base services operable as per manufacturing recommendations. The Lessee will arrange and monitor the maintenance programs.

5.5 Lessor's Obligations

Unless the action, damage or excessive wear has been directly caused by the Lessee's specific use of the Premises or lack of the Lessee's maintenance, the Lessor must, at its own expense:

- (a) maintain the structural integrity of the Premises and the building;
- (b) keep the roof of the Premises and the building in a waterproof condition;
- (c) maintain the exterior of the Premises, the building and any common areas and whenever necessary, repaint those areas (exterior) to ensure the exterior of the Premises and the building at all times appears well presented;
- (d) duly comply with all statutes, regulations, rules and by-laws applying in respect of the Premises and the building (excluding those caused or relating to the Lessee fit out).

6. MUTUAL COVENANTS

6.1 Determination of Lease

If

- (a) the rent (including GST) hereby reserved or any part thereof shall be in arrears for fourteen (14) days after written demand shall have been made for payment thereof, or
- (b) the Lessee being a Company shall go or be put into liquidation or shall have a Receiver a Receiver and manager, an Official Manager, or administrator appointed or makes an assignment for the benefit of or enters into an arrangement or composition with its creditors, or
- (c) execution is levied against the Lessee and not discharged within thirty (30) days, or
- (d) the Australian Securities & Investment Commission is directed to arrange for an investigation into the affairs or into particular affairs of the Lessee (being a company) pursuant to the Corporations Act 2001 (or where applicable each law of the Commonwealth or a State or Territory of Australia which corresponds with the Corporations Act 2001), or
- (e) the Lessee shall make default in the observance or performance of any of the covenants and conditions herein contained and on the part of the Lessee to be observed and performed,

then and in every or any of such cases it shall be lawful for the Lessor (although the Lessor may not have taken advantage of some previous breach or default of a like nature) forthwith or at any time thereafter to determine this Lease in respect of any breach or default by the Lessee of or in respect of any covenant or condition of this Lease to which **Section 146** of the Property Law Act 1958 does not extend and in respect of any breach or default by the Lessee of or in respect of any covenant or condition of this Lease to which the said Section does extend then to determine this Lease upon or at any time after the expiration of fourteen (14) days after the date of service of the notice required to be served on the Lessee by **sub-section 1** of the said **Section 146** (which period of fourteen (14) days is hereby fixed as the time within which the Lessee is to remedy any such last mentioned breach or default if it is capable of remedy and to make reasonable compensation in money to the satisfaction of the Lessor for such breach or default) and to re-enter upon the Premises or any part thereof in the name of the whole and thereupon the Term shall absolutely cease and determine and the Lessor may also without notice eject from the Premises or any part thereof all persons without prejudice to any right of action or other remedy of the Lessor in respect of any breach of covenant on the part of the Lessee and the Lessor may remove any goods and chattels therein and store the same at the risk and cost of the Lessee and give a good and valid authority for the sale thereof for non-payment of storage charges.



6.2 Essential Covenants

6.2.1 Each of the covenants by the Lessee which are specified in this Clause are essential terms of this Lease:

- (a) The covenant to pay rent (including GST) throughout the Term at a date not later than seven (7) days after the due date for payment of each instalment of rent as set out in the Schedule (3.1);
- (b) The covenant to pay rates and other charges (3.4);
- (c) The covenant to use the Premises for the Permitted Use (4.1);
- (d) The covenants governing and restricting assignment and sub-leasing (4.7);
- (e) The covenant to comply with orders (3.11);
- (f) The covenant not to lodge a caveat (6.10.3); and
- (g) Any other covenant in respect of which the Lessee's breach is serious persistent and of a continuing nature.

6.2.2 In respect of the Lessee's obligation to pay rent, the acceptance by the Lessor of arrears or of any late payment of rent shall not constitute a waiver of the essentiality of the Lessee's obligation to pay rent in respect of those arrears or of the late payment or in respect of the Lessee's continuing obligation to pay rent during the Term.

6.2.3 The Lessee covenants to compensate the Lessor in respect of any breach of an essential term of this Lease and the Lessor is entitled to recover damages from the Lessee in respect of such breaches. The Lessor's entitlement under this clause is in addition to any other remedy or right to which the Lessor is entitled (including the termination of this Lease).

6.2.4 Should the Lessee's acts or omissions constitute a repudiation of the Lease (or of the Lessee's obligations under the Lease) or constitute a breach of any Lease covenants, the Lessee covenants to compensate the Lessor for the loss or damage suffered by reason of the repudiation or breach.

6.2.5 The Lessor shall be entitled to recover damages against the Lessee in respect of repudiation or breach of covenant for the damage suffered by the Lessor during the entire Term of this Lease (but not including the Further Term (if any) unless the Lessee shall have exercised any option to take a renewed demise for a Further Term).

6.2.6 The Lessor's entitlement to recover damages shall not be affected or limited by any of the following:

- (a) If the Lessee shall abandon or vacate the Demised Premises;
- (b) If the Lessor shall elect to re-enter or to terminate the Lease;
- (c) If the Lessor shall accept the Lessee's repudiation; or
- (d) If (in the absence of mutual agreement between the parties) the Lease shall be surrendered by operation of law following default by the Lessee.

6.2.7 The Lessor shall be entitled to institute legal proceedings claiming damages against the Lessee in respect of the entire Lease Term (but not including the Further Term (if any) unless the Lessee shall have exercised any option to take a renewed demise for a Further Term) including the periods before and after the Lessee has vacated the Premises, and before and after the abandonment, termination, repudiation, acceptance of repudiation or surrender by operation of law referred to in **Clause 6.2.6** whether the proceedings are instituted either before or after such conduct.

6.3 Damage

If the Premises or any part thereof shall at any time during the Term be destroyed or damaged so as to be unfit for occupation and use and the policy or policies of insurance effected by the Lessor shall not have been vitiated or payment of the policy moneys refused in consequence of some act or default of the Lessee his servants or agents the rent hereby reserved and the outgoings or a fair proportion thereof according to the nature and extent of the damage sustained shall be suspended until the Premises shall be again rendered fit for occupation and use and in case of difference touching this proviso the same shall be referred to the award of a single arbitrator in case the parties can agree upon one and otherwise to two arbitrators one to be appointed by each party and in either case in accordance with the provisions of the Commercial Arbitration Act or any statutory modification thereof for the time being in force (with both parties having the right of legal representation) (and until the amount of rent and outgoings to be paid (if any) shall have been mutually agreed upon or determined as aforesaid the full rent and outgoings shall be payable and paid without deduction but the Lessor shall subsequently refund the amount (if any) paid by the Lessee in excess of the amount to be agreed or determined) **PROVIDED ALWAYS** that in the event of the Premises or the Building of which the Premises shall be a part (or both the Premises and such



Building) being destroyed or so much damaged as to amount substantially to a destruction of the Premises the Lessor or Lessee shall be at liberty within four (4) months after the damage by notice to the other to determine this Lease as from the date of the damage but the Lessee shall not be entitled so to determine if the Lessor within three (3) months from the date of the damage gives notice to the Lessee of his intention to rebuild and proceeds with such rebuilding with reasonable expedition.

6.4 **Overholding**

If after the expiration of the Term the Lessee remains in possession of the Premises without objection by the Lessor otherwise than pursuant to a further Lease granted by the Lessor then:

- (a) the Lessee shall be considered as and be a tenant from month to month of the Lessor,
- (b) the Lessee shall pay to the Lessor monthly in advance a monthly rental equal to the amount of rental payable in respect of the last full month prior to such expiration (or such other rental as may be agreed upon from time to time) and so that if the last payment relates to a period less than a month such payment shall be adjusted proportionately to the portion of the month to which it relates on a daily basis,
- (c) the Lessee shall also pay to the Lessor all sums which would have been payable pursuant to **Clause 3.4** if the whole period of the tenancy from month to month pursuant to this present clause constituted the Term of the Lease and such sums shall be payable at the times and in the manner provided by the said **Clause 3.4**,
- (d) the said tenancy from month to month shall otherwise be upon the same terms and conditions as are herein contained so far as the same are applicable, and
- (e) the said tenancy from month to month may be determined by either party giving to the other not less than one month's notice in writing of such determination and such notice may expire at any time.

6.5 **Lessor's Liability**

- 6.5.1 The Lessor shall not be responsible or liable to the Lessee or any person claiming under or through him (whether by way of compensation or reduction in rent or otherwise) for any damage caused by any burglary theft breaking and entering or malicious damage caused by any person to the Premises or the Lessee's tenants or trade fixtures fittings or goods or for any loss damage or injury to the goods property effects business or person of the Lessee caused by any flow of water moisture or liquid through the bursting of or any defect in or overflow from any pipe or from the lavatories, closets, basins, receptacles, roof, walls or drains of the Premises or of the Building or for any malfunction failure breakdown interruption or mishap involving any lift, stairs, passages, air-conditioning, lavatories, conveniences, fire equipment, water, gas or electricity services or parking space in such building or from a blockage of any sewers, wastes, drains, gutters, down-pipes or storm water drains;
- 6.5.2 The Lessor shall not be liable or responsible to the Lessee for any loss of enjoyment of light air or prospect arising from or in consequence of any increase in the height of adjoining or neighbouring buildings or for any alteration to the Premises.
- 6.5.3 Notwithstanding anything herein contained whether express or implied (and in particular but without limiting the generality of the foregoing Clause 3.15) the Lessor shall not in any way be liable for any injury loss or damage which may be caused to the Lessee or to the Lessee's property or to the Lessee's employees servants clients visitors customers agents or invitees or their property by reason of any happening on or in the vicinity of the Premises or Building howsoever caused except to the extent of any injury loss or damage caused or contributed to by any act omission or negligence of the Lessor.
- 6.5.6 Notwithstanding anything herein contained or any implication or rule of law to the contrary the Lessor shall not be liable for any damage or loss the Lessee may suffer by reason of the neglect or omission of the Lessor to do any act or thing to or in respect of the Premises and which (as between the Lessor and the Lessee) the Lessor might be legally liable to do unless the Lessor is known to have been aware of such neglect or omission or unless the Lessee shall have given to the Lessor notice in writing of such neglect or omission and the Lessor has without reasonable cause failed within a reasonable time thereafter to take proper steps to rectify such neglect or omission.



6.6 Option for Renewal

6.6.1 The Lessor covenants with the Lessee that if the Lessee shall be desirous of taking a renewal of the Lease of the Premises for the Further Term specified in the Schedule from the expiration of the Term and shall at least three (3) calendar months prior to the expiration of Term signify such desire by notice in writing to the Lessor and:

- (a) if the Lessee shall not then or at the expiration of the Term be in default hereunder, and
- (b) shall not have persistently been in default under the Lease during the Term of which written notices have been sent to the Lessee,

then the Lessor will at the cost of the Lessee execute a new Lease to the Lessee of the Premises for such Further Term at an annual rental to be reviewed to market in accordance with clause 2 of Appendix A and otherwise such Lease shall be subject to the covenants agreements and provisions as are herein contained (including any guarantees) save and except this present covenant for renewal

6.6.2 The Lessor hereby notifies the Lessee that this option to renew must be exercised by the date set out in the Schedule as after that date the option will not be exercisable.

6.7 Lessor's Successor

In the event of any person other than the Lessor becoming entitled to receive the rental hereby reserved either by operation of law or otherwise the Lessee agrees that such person shall have the benefit of all covenants and agreements on the part of the Lessee hereunder and the Lessee at the cost of the Lessor will enter into such covenants with such other person in that regard as the Lessor may reasonably and properly require PROVIDED THAT such covenants will:

- (a) not provide any further obligations, liabilities or responsibilities on the Lessee as herein provided; and
- (b) provide, *inter alia*, that the new lessor shall be bound by the terms and conditions of this lease as if it were an original party.

6.8 Notices

6.8.1 Any notice required to be given to or served on the Lessee hereunder shall without prejudice to any other lawful mode of service be deemed to be duly given to or served upon the Lessee if served personally upon the Lessee or if addressed to the Lessee or delivered to or left at or posted by prepaid post to: a director of the Lessee or as otherwise nominated by the Lessee at an address notified by the Lessee from time to time.

6.8.2 Any notice or demand served or given by post shall be deemed to be duly given or served even if proved that it was not delivered and shall be deemed to have been served or given on the second day after the day on which it was posted (Saturdays, Sundays and public holidays excluded).

6.8.3 Any notice or demand need not be signed by or on behalf of the Lessor or if signed may be signed on behalf of the Lessor by any of the Lessor's servants agents or officers or by the Lessor's solicitors.

6.8.4 Any notice required to be given to or served on the Lessor hereunder shall without prejudice to any other lawful mode of service be deemed to be duly given to or served upon the Lessor if served personally upon the Lessor or if addressed to the Lessor or delivered to or left at or posted by prepaid post to the Lessor:

- (i) at the address of the Lessor set out herein, or
- (ii) at such other address as the Lessor may by written notice to the Lessee have previously so advised the Lessee.

6.9 Bank Guarantee

6.9.1 As a further consideration for the Lessor granting this Lease to the Lessee the Lessee has deposited with the Lessor a Bank Guarantee in the amount as shown in the Schedule ("**the Bank Guarantee** ") shall be retained by the Lessor as a guarantee and security that the Lessee shall pay the rent hereby reserved and all other monies payable hereunder and perform and observe all the Lessee's obligations hereunder.

6.9.2 If the Lessee defaults in payment of the said rent or of any other monies payable hereunder or in the performance or observance of any of the Lessee's obligations hereunder the Lessor may and is hereby authorised by the Lessee at any time during the term hereof or thereafter to pay or reimburse itself out of the Bank Guarantee all unpaid rent and other monies and all monies costs and expenses which the Lessor incurs or might incur and any loss or damage which the Lessor suffers or might suffer in consequence or arising out of such default on the part of the Lessee as aforesaid.

6.9.3 If at any time the Lessor has recourse to the Bank Guarantee pursuant to this Clause or the Bank Guarantee is otherwise reduced below the amount set out in the Schedule, the Lessee shall immediately replace or substitute the Bank Guarantee so as to restore the Bank Guarantee to the amount set out in the Schedule.



6.9.4 Save as aforesaid if the Lessee at the end of the Term is not in default in payment of the said rent or of any other monies payable hereunder or in the performance and observance of the Lessee's obligations hereunder the Lessor shall release to the Lessee the Bank Guarantee.

6.9.5 In the event of:

- (i) an assignment of this Lease to a new lessee, the Lessor may call for a new bank guarantee for the bond monies from the new lessee; or
- (ii) an assignment of the reversion of this Lease to a new lessor, the new lessor (at the cost of the Lessor) may call for and require a new bank guarantee to the new lessor; and

upon receipt of the new bank guarantee, the previous bank guarantee shall be returned to the party that caused it to be issued or the Lessor shall confirm by deed that the previous bank guarantee is extinguished.

6.10 **Miscellaneous**

6.10.1 Nothing contained herein shall be deemed or construed by the parties hereto or by any third party as creating the relationship of partnership or of principal and agent or of joint venture between the parties hereto or any other relationship other than the relationship of Lessor and Lessee under the terms and conditions only as provided in this Lease.

6.10.2 Without in any way limiting any other provision or provisions herein contained should the Lessee fail to deliver up possession of the Premises in accordance with any notice to quit or of re-entry or upon the expiration or earlier determination of this Lease (except where the Lessee with the permission of the Lessor continues in occupation of the Premises as hereinbefore provided) and fails to return all the keys for the Premises to the Lessor it shall be competent for the Lessor to demand and recover from the Lessee in addition to any rental sums or damages due or arising hereunder a sum for use and occupation calculated at the same rate as the rental herein provided up to and including the date when such possession is delivered up as aforesaid (and it is hereby agreed with respect to the foregoing that the Lessee shall be deemed to be in possession whilst any plant fixtures fittings and furnishings equipment or any other chattels of the Lessee which the Lessor requires to be removed from the Premises have not been so removed and until all keys for the Premises have been returned to the Lessor) without any such notice to quit or other notice being waived or any proceedings to obtain possession being in any way prejudiced.

6.10.3 The Lessee hereby covenants and agrees that he shall not lodge nor allow any person claiming through him or acting on his behalf to lodge any caveat over the land of which the Premises forms part or any part thereof.

6.10.4 The Lessee hereby irrevocably makes nominates constitutes and appoints the Lessor to be the true and lawful attorney of the Lessee to act at any time after the power to re-enter herein contained shall have become exercisable or shall have been exercised (a sufficient proof whereof shall be the statutory declaration of the Lessor or its officers) to execute and sign a transfer assignment or a surrender of this Lease or withdrawal of caveat and for this purpose to use the name of the Lessee and generally to do execute and perform any act deed matter or thing relative to the Premises as fully and effectually as the Lessee could do in and about the Premises and the Lessee hereby covenants to ratify and confirm all and whatsoever the said attorney or any substitute shall lawfully do or cause to be done in and about the Premises.

7. **GST**

7.1 **GST Definitions**

For the purpose of this Clause 7 expressions set out in italics this clause bear the same meaning as those expressions in the GST Act.

“**GST**” means GST within the meaning of the GST Act.

“**GST Act**” means the A New Tax System (Goods and Services Tax) Act 1999 (as amended).

7.2 **Amounts otherwise payable do not include GST.**

Except where express provision is made to the contrary, and subject to this clause 7, the *consideration* payable by any party under this Lease represents the *value* of any *taxable supply* for which payment is to be made.

7.3 **Liability to Pay GST**

Subject to Clause 7.5 if a party makes a *taxable supply* in connection with this Lease for a *consideration* which, under Clause 7.2 or Clause 7.5, represents its *value* then the party liable to pay for the *taxable supply* must also pay, at the same time and in the same manner as the *value* is otherwise payable, the amount of any GST payable in respect of the *taxable supply*.



7.4 Reimbursements

If this Lease requires the Lessee to pay, reimburse, or contribute to an amount paid or payable by the Lessor in respect of an *acquisition* from a third party for which the Lessor is entitled to claim an *input tax credit*, the amount required to be paid, reimbursed, or contributed by the Lessee will be the *value* of the *acquisition* by the Lessor plus, if the Lessor's recovery from the Lessee is a *taxable supply*, any GST payable under Clause 7.3.

7.5 Tax Invoice

A party's right to payment under Clause 7.3 is subject to a valid *tax invoice* being delivered to the party liable to pay for the *taxable supply*.

8 GUARANTOR'S OBLIGATIONS

8.1 Liability of Guarantor

In consideration of the Lessor entering this Lease at the Guarantor's request, the Guarantor:

- (a) unconditionally guarantees to the Lessor the punctual performance by the Lessee of the Lessee's obligations under this Lease;
- (b) must keep the Lessor indemnified against all loss or damage incurred by the Lessor as a result of the Lessee breaching this Lease; and
- (c) must keep the Lessor indemnified against all loss or damage incurred by the Lessor resulting from a trustee in bankruptcy or a liquidator of the Lessee disclaiming this Lease or from this Lease being unenforceable against the Lessee for some other reason.

8.2 Liability of Guarantor not affected

The Guarantor is liable, even if:

- (a) one or more of the Guarantors dies;
- (b) the Lessor gives any extension of time or any other indulgence to the Lessee or any Guarantor;
- (c) this Lease is varied, assigned (but where the Act applies only insofar as permitted by the Act) or extended;
- (d) this Lease is not or cannot be registered at the Land Titles Office;
- (e) the Lessee grants a sub-lease, a licence or any other right to occupation;
- (f) the Premises is sold; or
- (g) the Lessor releases the Lessee or any Guarantor.

8.3 Bankruptcy or liquidation of the Lessee

The Guarantor agrees that:

- (a) The Lessor may retain all money received including dividends from the Lessee's bankrupt estate, and need allow the Guarantor a reduction in its liability under this guarantee only to the extent of the amount received;
- (b) the Guarantor must not seek to recover money from the Lessee to reimburse the Guarantor for payments made to the Lessor until the Lessor has been paid in full;
- (c) the Guarantor must not prove in the bankruptcy or winding up of the Lessee for any amount which the Lessor has demanded from the Guarantor; and
- (d) the Guarantor must pay the Lessor all money which the Lessor refunds to the Lessee's liquidator or trustee in bankruptcy as preferential payments received from the Lessee.

9. Option and First Right of Refusal to Purchase

At any time prior to 1 April 2007 (unless varied under clause 15)), the Lessee may notify the Lessor in writing that it intends to exercise its right to purchase the Premises for the set sum of \$6,000,000 (six million dollars) plus GST. Terms will be based upon a standard 10% deposit with balance of 90% to be paid in 60 days.

Should the Lessee not exercise the right to purchase the Premises prior to 1 April 2007 (unless varied under Clause 15), at any time thereafter during the term of the Lease, if the Lessor wishes to sell the Premises, the Lessee must be given 3 business days written notice that the Premises is to be marketed for sale, prior to the commencement of the sale process.



During this 3 business day period, the Lessor and Lessee agree to negotiate the sale of the Premises to the Lessee. Should no agreement for the purchase be reached, the Lessee has no further guaranteed right to purchase the Premises and the Lessor may commence the sale process.

10. Lessor's Works

- (a) The Lessor agrees to pay for the recarpeting of the office areas to a maximum value of \$50 per square metre (being \$70,000) for the 1,400 square metre office component.
- (b) The Lessee will arrange the works, using the Lessor's selected carpet provider.
- (c) Should the Lessee spend more than the allowance, it will be at their own cost. Should the Lessee spend less than the allowance, the saving will be kept by the Lessor.
- (d) The Lessee shall not be required to lift existing partitions that may remain for laying the replacement carpet.
- (e) The Lessor agrees to assist in any process undertaken by the Lessee, such as submission of Planning Permits for building alterations to council, in a timely and cost efficient manner. Any reasonable costs of the Lessor relating to the permissions will be refunded by the Lessee.

11. Car Parking

All spaces at the premises as at the Access Date are to remain with the tenancy throughout occupation at no cost to the Lessee.

12. Consent

In all instances when granting consent under the lease the Lessor must not unreasonably withhold or delay its consent.

13. Redecoration

For the avoidance of doubt, no 're-decoration' (inclusive of repainting, recarpeting and refinishing) during the lease is to be undertaken by the Lessee beyond proper and reasonable maintenance.

14. Rent Free Period

From the Commencement Date to 31 March 2007 (subject to review under clause 15.2), no rent shall be payable by the Lessee. However for the avoidance of doubt, Outgoings will be payable from the Commencement Date.

15. ACCESS TO PREMISES

15.1 Access to Premises

The Lessee shall receives keys and be granted full access to the Premises on the Commencement Date.

15.2 Extension of Dates by delays in the Access Date

The Commencement Date in item 5 of the Schedule, the dates shown in clause 9 and the date shown in clause 14 (Rent Free Period) shall be extended if there is a delay in providing access to the Premises by the Lessor to the Lessee by 1 November 2006 by the same number of days as the length of the delay.



SCHEDULE

- 1. **PREMISES:** 1 Corporate Avenue, Rowville, Vic 3178 (excluding area leased for the telecommunications aerial)
- 2. **BUILDING:** 1 Corporate Avenue, Rowville, Vic 3178
- 3. **LAND:** Certificate of Title Volume 10225 Folio 341
- 4. **TERM:** Seven (7) years and five (5) months
- 5. **COMMENCEMENT DATE:** 1 November 2006 (as amended in accordance with Clause 15.2)
- 6. **RENTAL:** \$460,000 plus GST per annum
- 7. **PAYABLE:** Calendar monthly in advance.
- 8. **RENT REVIEW:** The rental shall be reviewed at the times and in the manner set out in Appendix A.
- 9. **PERMITTED USE:** Office, warehouse, manufacturing and laboratory
- 10. **FURTHER TERM:** Two (2) further terms of five (5) years each
- 11. **CHATTELS:** All fixtures and fittings in the Premises owned by the Landlord
- 12. **BANK GUARANTEE:** \$250,000
- 13. **LAST DAY FOR EXERCISE OF OPTION:** 1 January 2014
- 14. **GUARANTOR:** Nil



APPENDIX A

1 CPI RENTAL REVIEW

The rental will be increased annually on each anniversary of the Commencement Date and each anniversary of commencement of any further term by 3.5%. Rental for the first year of any renewed term shall be reviewed to market in accordance with clause 2 below.

2 MARKET RENTAL REVIEW

- 2.1 The rental for the first year of any further term shall be reviewed to market in accordance with this clause.
- 2.2 The Lessor or lessee may initiate a review of the rental to market by giving the other party a written notice stating the current market rent which it proposes should apply from a Market Review Date.
- 2.3 All reviews of rental to market shall be initiated no earlier than 3 and no later than 6 months from a Market Review Date.
- 2.4 If the party receiving the notice does not object in writing to the proposed rent within 28 days, it becomes the rental from the Market Review Date.
- 2.5 If a party receiving the notice serves an objection to the proposed rent within 28 days and the parties do not agree on the rental within 28 days after the objection is served, or the parties must appoint a Valuer to determine the current market rent.
- 2.6 If the parties do not agree within 28 days after the objection is served, on the name of the Valuer, the Valuer must be nominated by the senior office-bearer of the Australian Property Institute — Victorian Division, at the request of either party.
- 2.7 In determining the current market rent for the Premises the Valuer must — use best valuation practice and consider all factors the valuer considers relevant but must:
- (a) Disregard;
 - 1) The value of the Lessees Works
 - 2) The incentive provided in the Lease;
 - 3) Lessee goodwill; and
 - 4) Any signage or naming rights granted under the Lease.
 - (b) Have regard to;
 - 1) Written submissions from the parties;
 - 2) The provisions of the Lease including the whole Lease term (the Initial Term plus any further options);
 - 3) The assumption that the premises are vacant and available for lease; and
 - 4) The total amount of space the Lessee occupies in the building (having regard to telecommunication aerials for example).
 - (c) Assume;
 - 1) The Lessee has a full make good clause.

The cost of any determination procedure will be borne equally by the parties.

- 2.8 The Valuer must determine a current market rent not more than 10% higher and not less than 10% lower than the rental immediately before the review.
- 2.9 Clause 2.8 does not apply if the Act applies.
- 2.10 The Valuer must make the determination of the current market rent and inform the parties in writing of the amount of the determination and the reasons for it as soon as possible after the end of the 21 days allowed for submissions by the parties.
- 2.11 If -
- (a) no determination has been made within 45 days of the parties
 - (i) appointing the Valuer, or
 - (ii) being informed of the Valuer's appointment, or
 - (b) the Valuer resigns, dies or becomes unable to complete the valuation, then the parties may immediately appoint a replacement Valuer in accordance with Clause 2.6



- 2.12 The Valuer's determination binds both parties.
- 2.13 The Lessor and Lessee must bear equally the Valuer's fee for making the determination. If either pays more than half the fee, the difference may be recovered from the other.
- 2.14 Until the determination is made by the Valuer, the Lessee must continue to pay the same Rent as before the Market Review Date. Within 7 days of being informed of the Valuer's determination, the parties must make any necessary adjustments.
- 2.15 In this Clause 2 a "Market Review Date" means the commencement of any further term of the Lease namely 1 April 2014 and 1 April 2019



2006C&TXtPVZSbsgp

EXECUTED by the parties:

THE COMMON SEAL of HEYRAM PROPERTIES.)
PTY. LTD was hereunto affixed in accordance with its)
constitution in the presence of:)

/s/ Bruce Heymanson Director

Bruce Heymanson (Print name)

THE COMMON SEAL of UNIVERSAL BIOSENSORS)
PTY LTD was hereunto affixed in accordance with its)
constitution in the presence of:)

/s/ Mark Morrisson Director

Mark Morrisson (Print name)

/s/ Andrew Ramsden ; Director

Andrew Ramsden (Print name)

/s/ Andrew Denver ; Director

Andrew Denver ; (Print name)



Exhibit 31.1

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

I, Paul Wright, certify that:

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

Date: April 24, 2014

/s/ Paul Wright

Paul Wright
Principal Executive Officer
Universal Biosensors, Inc.



Exhibit 31.2

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

I, 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: April 24, 2014

/s/ Salesh Balak

 Salesh Balak
 Principal Financial Officer
 Universal Biosensors, Inc.



200GC&TXtP%semY6)

Exhibit 32

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

In connection with the quarterly report of Universal Biosensors, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2014, 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 24th day of April, 2014.

/s/ Paul Wright
 Paul Wright
 Principal Executive Officer

/s/ Salesh Balak
 Salesh Balak
 Principal Financial Officer

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